



# Performance and Accountability Report

Fiscal Year 2008



U.S. Customs and  
Border Protection





# About This Report

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This is the U.S. Customs and Border Protection (CBP) Fiscal Year 2008 Performance and Accountability Report (PAR). The PAR is a comprehensive report that combines CBP's Annual Performance Report with its audited financial statements, assurances on internal control, accountability reporting, and agency assessments. CBP's PAR provides financial and performance information that will enable Congress and the public to assess the performance of the agency as it relates to the CBP mission.

CBP is America's frontline border agency. We guard the boundaries of freedom and stand between the good citizens of our nation and those who want to do us harm. The CBP PAR discusses the agency's strategic goals and objectives and provides a comparison of agency performance targets to actual performance results. The CBP PAR satisfies the reporting requirements of the Reports Consolidation Act of 2000 (Public Law No. 106-531), Government Performance and Results Act (Public Law No. 103-62), Chief Financial Officers Act of 1990 (Public Law No. 101-576), and other financial management statutes and reports.

The CBP PAR provides a summary of the agency's major mission programs including strategies. Additional information related to the specific programs, initiatives, tools, and resources to achieve objectives may be found in the body of the U.S. Department of Homeland Security (DHS) Congressional Budget Justification for the President's budget, which detailed information by DHS component.

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# Commissioner's Message



I am delighted to present the Fiscal Year (FY) 2008 Performance and Accountability Report for U.S. Customs and Border Protection (CBP). Since CBP's inception in 2003 as the Nation's unified border agency, the mission has continued to grow dramatically. CBP is responsible for protecting the homeland from the entry of terrorists and dangerous weapons, in addition to our traditional missions of interdicting the flow of illegal aliens, drugs and illicit goods, while facilitating the flow of legitimate trade.

In FY 2008, the men and women of CBP made tremendous progress toward meeting the President's goals for improving border security. Every day, we process more than 70,000 containers and over a million people coming across our borders. In FY 2008, we apprehended over 948,000 people attempting to enter the U.S. illegally and seized more than 2.78 million pounds of illegal drugs. Additionally, we continued our robust enforcement of trade laws and collected over \$34 billion in revenue.

CBP also made tremendous progress in our effort to deploy approximately 670 miles of pedestrian and vehicle fencing in priority areas along the southern border to disrupt the flow of illegal immigrants and drugs into the country. While factors including rising commodity prices led to cost increases, CBP helped to protect taxpayers by locking in fixed steel prices through a pre-purchase agreement. Additionally, CBP began testing the design of the first Secure Border Initiative (SBI<sup>net</sup>) operational deployment projects in our Tucson Sector. Our SBI<sup>net</sup> technology demonstration prototype has already assisted Border Patrol in the apprehension of over 3,800 illegal aliens in FY 2008.

To respond to the growing mission, we have also accelerated the recruitment, hiring, and training of Border Patrol agents. There are now approximately 18,000 agents in place, more than double the number of agents that existed when President Bush first took office in 2001. This represents the largest expansion of the Border Patrol in its long and distinguished history. CBP was able to dramatically grow the agent workforce without sacrificing the quality of training that the Border Patrol Academy prides itself on delivering.

CBP is proving that the proper mix of personnel, infrastructure, and technology can improve border security.

We've also made tremendous progress in protecting our economy by rigorously enforcing intellectual property rights and other trade laws. CBP has also enhanced efforts to protect our food supply and agriculture industry from pests and disease.

Since 9/11, we have built a layered strategy based on sound risk management, believing that with advance information and sophisticated targeting methods, we can assess the risk of what, or who, is headed our way. CBP's layered approach is one that can be applied to all modes of transportation—air, land, and sea, and it is through these efforts that we aim to make our physical borders the last line of defense, rather than the first.

Our risk-based strategy is centered on the use of sophisticated technology. As part of the Secure Freight Initiative (SFI), we launched pilot efforts at ports in Pakistan, the United Kingdom, and Honduras that send real-time radiation spectra and container imaging to our national targeting center. This information is then analyzed and any concerns are addressed while the container is still overseas. After careful analysis of trial results and feedback from our pilot ports, CBP decided to focus on high-risk trade corridors to maxi-

mize our efforts, given the limited resources available from governments and private organizations to continue implementing SFI.

CBP has also taken steps to enhance international supply chain security by encouraging more private-sector organizations to become members of the Customs-Trade Partnership Against Terrorism (C-TPAT). C-TPAT is a voluntary government-business initiative to build cooperative relationships that strengthen and improve overall international supply chain and U.S. border security. There are now over 8,600 C-TPAT members, which covers half of all imports coming into the country. New C-TPAT offices were opened in Buffalo, New York and in Houston, Texas, bringing the total number of U.S. regional offices to seven. CBP also implemented the SAFE Port Act mandate to create a Third Party Verification Pilot Program for C-TPAT.

Along our borders, we have also deployed over 1,100 radiation portal monitors. We are screening 98 percent of the maritime containers at our seaports, which is remarkable considering that just five years ago, no containers were being screened. We've made similar progress along our land borders. Today, we are screening 100 percent of cargo coming from Mexico and 95 percent coming from Canada. Together with the State Department, we are also in the process of implementing the Western Hemisphere Travel Initiative (WHTI), which takes effect in June 2009. This requires that all travelers—U.S. citizens and foreign nationals alike—present a passport or other WHTI-compliant document verifying identity and citizenship when they arrive. This process will provide another layer of security at our ports of entry, while continuing to facilitate the flow of legitimate trade and travel.

Maintaining fiscal integrity and having sound management controls in place is especially vital to the work we do at CBP. In FY 2008, CBP received an unqualified audit opinion on its full set of financial statements for the third consecutive year. This outstanding accomplishment reflects our continued discipline, accountability and stewardship in executing CBP's fiscal responsibilities.

The CBP Fiscal Year 2008 Performance and Accountability Report includes financial and performance information that is reliable, complete, and addresses CBP's compliance with financial management requirements.

CBP evaluated our management controls and financial management systems in compliance with the Federal Managers' Financial Integrity Act of 1982 and our internal controls over financial reporting as required by the Department of Homeland Security Financial Accountability Act. As a result of this self-assessment, CBP identified four material weaknesses for FY 2008, and three instances of nonconformance. Five of these issues are carryovers from previous years:

- Core financial systems
- Financial systems functionality and technology
- Information technology general and application controls
- Custodial revenue and drawback controls
- Implementation of management controls for the Secure Border Initiative Program Executive Office

While current CBP financial management systems do not substantially comply with Federal financial management systems requirements and the U.S. Government Standard General Ledger at the transaction level, CBP is in the process of modernizing its financial systems. CBP is now in its fifth year of using SAP as an integrated solution for its budget, procurement, asset management, finance, and business reporting processes.

KPMG LLP conducted an independent audit of CBP's Fiscal Year 2008 Financial Statements and material weaknesses, cited in the Financial Section of this report, support those identified through CBP's self-assertion process, with three exceptions:

- Material weakness on laptop computer security identified by the Department of Homeland Security (DHS) Office of Inspector General (OIG) audit in Fiscal Year 2006
- Material weakness on the implementation of management controls for the Secure Border Initiative Program Executive Office, which was also identified by DHS OIG as a major management challenge in Fiscal Year 2006
- Material weakness on US VISIT technical security issues that was identified by the Government Accountability Office in 2007

While our FY 2008 accomplishments are impressive, CBP is a forward-looking organization and we have many important efforts currently underway to address various challenges. We have benefited in recent years from new resources, but we face many long-term challenges, including the need to modernize our land ports of entry, many of which are antiquated and undersized.

We must also never forget that CBP employees are confronted with dangerous conditions every day in executing critical mission responsibilities. In FY 2008, two more Border Patrol agents, Luis Aguilar and Jarod Dittman, lost their lives in the line of duty. This serves as another stern reminder of the treacherous nature of the CBP mission. In our five-year history, 14 CBP employees have died in the line of duty.

I would like to congratulate the entire CBP workforce for all of our achievements over the past year and the job performed every day to protect our Nation. I am proud of all we have accomplished and would like to thank all CBP employees for their dedicated public service.



W. Ralph Basham  
Commissioner

December 4, 2008





# Management's Discussion and Analysis

# Overview of CBP

## Mission

U.S. Customs and Border Protection (CBP) is the frontline border security agency within the U.S. Department of Homeland Security (DHS) charged with the priority mission of preventing terrorists and terrorist weapons from entering the United States, while also facilitating the flow of legitimate trade and travel. CBP prevents narcotics, agricultural pests and smuggled goods from entering the country and also identifies and arrests individuals with outstanding criminal warrants. CBP leverages its enforcement and intelligence-gathering capabilities to execute the mission of border and airspace security. More than 51,552 CBP employees manage, control, and protect the Nation's borders at and between the official ports of entry. CBP is responsible for protecting more than 5,000 miles of border with Canada, 1,900 miles of border with Mexico, and 95,000 miles of shoreline. CBP's mission is vitally important to the protection of the American people and the national economy.

## Core Values

*Vigilance* is how we ensure the safety of all Americans. We are continuously watchful and alert to deter, detect, and prevent threats to our Nation. We demonstrate courage and valor in the protection of our Nation.

*Service to Country* is embodied in the work we do. We are dedicated to defending and upholding the Constitution of the United States. The American people have entrusted us to protect the homeland and defend liberty.

*Integrity* is our cornerstone. We are guided by the highest ethical and moral principles. Our actions bring honor to ourselves and to our agency.

## Fiscal Year 2008 Statistical Highlights

- Ports of entry: 327 (includes 15 preclearance stations)
- Border Patrol sectors: 20 (with 140 Border Patrol stations nationwide and 34 permanent checkpoints)
- Air units: 43 (2 Training locations and 2 Radar/Communications locations)
- Marine units: 31 (2 Training Locations)
- Trade entries processed: 29 million
- Total revenue collected: more than \$34.5 billion (includes custodial and entity revenue)
- Illegal narcotics seized: 3.1 million pounds (represents narcotics held by CBP until disposal or destruction)
- Illegal alien apprehensions between the ports of entry: 723,825
- Inadmissible aliens interdicted at the ports of entry: 224,804
- Pedestrians and passengers processed: 409 million
- Conveyances processed: 121 million
- Aircraft passengers processed: 94 million



## Drug Seizure Statistics

Note: The following amounts represent total CBP seizures, including amounts transferred to other government agencies for disposition.

- Number of pounds of cocaine seized: 178,770
- Number of pounds of heroin seized: 2,178
- Number of pounds of marijuana seized: 2,471,931
- Number of pounds of methamphetamine seized: 2,770

## Major Mission Programs and Strategies

As America's frontline border security agency, CBP has established programs and strategies designed to transform border security and other mission critical functions by operating as a fully integrated, intelligence-driven agency. CBP has built a layered strategy based on the concept of risk management using advance information and sophisticated targeting methods.



CBP Border Patrol K-9 drug seizure.

## Secure Border Initiative and SBInet

CBP's Secure Border Initiative (SBI) is best defined as a systems approach to meet the challenge of border security; its mission is to integrate and unify the systems, programs, and policies needed to secure the border and enforce customs and immigration laws. The challenge of securing America's borders is multi faceted and complex and extends beyond controlling the legal entry and exit of people and goods across our borders. The SBI approach calls for a new culture among DHS component agencies that maximizes collaboration, capitalizes on the experience and talents of our employees, and fosters enhanced communication between headquarters and the field. SBI seeks to put the right tools in the hands of employees on the front lines, facilitate the reduction of administrative and diplomatic obstacles to accomplish border security missions, ensure that DHS resources are appropriately distributed, and institute systematic efficiencies.

The CBP SBInet Program Office serves as the executive agent for the DHS SBInet program. SBInet's strategic goals are to (1) ensure border security by providing resources and capabilities to gain and maintain control of the Nation's borders at and between the ports of entry (POEs); (2) lead the development and deployment of a Common Operating Picture (COP); and (3) provide responsible acquisition management.

In Fiscal Year (FY) 2008, SBInet began its initial development and deployment of the COP. The COP will provide uniform data to all DHS agencies and be interoperable with stakeholders external to DHS. The COP will enable users to make sound tactical, operational and strategic decisions; quickly inform CBP and other DHS components of strategic implications of mission success; rapidly exchange strategic, operational, and tactical information with supporting commands and interagency organizations; effectively plan, execute, and evaluate multiple mission events; and effectively interface with DHS partners to satisfy mission

# Overview of CBP

requirements. In the area of acquisition management, SBInet's Tactical Infrastructure program is completing miles of fencing and vehicle barriers along the southwest border of the United States to provide physical infrastructure to mostly urban areas. Along with the building of infrastructure, SBInet is implementing technological and surveillance solutions.

## National Border Patrol Strategy

CBP's strategy to secure our Nation's borders between the POEs is prescribed largely in the National Border Strategy. The area between the POEs consist of miles of open space, deserts, waterways, forests, and prairies making our Nation's borders vulnerable to the threats of terrorism and to exploitation by human smugglers as well as smugglers of drugs and other illicit contraband. CBP's Office of Border Patrol's (OBP) strategic goal is to gain and maintain, and expand effective control of the borders of the United States between these POEs. To assist in achieving its goal, the Border Patrol implemented the National Border Patrol Strategy which articulates a clear, strategic mission and program purpose to establish and maintain border security. The five main objectives of the National Border Patrol Strategy are as follows:



CBP Border Patrol agent canvasses a remote area of the U.S. border.

- Establish substantial probability of apprehending terrorists and their weapons as they attempt to enter illegally between the POEs
- Deter illegal entries through improved enforcement
- Detect, apprehend, and deter smugglers of humans, drugs, and other contraband
- Leverage "Smart Border" technology to multiply the effect of enforcement personnel
- Reduce crime in border communities and consequently improve the quality of life and economic vitality of these areas

To accomplish these objectives, the strategy requires the deployment of the "right mix" of resources to gain and maintain border security. The primary goal of the National Border Patrol Strategy is *effective control* of the border. Effective control is achieved by deploying the right mix of resources based on threat potential, vulnerabilities, associated risk, and operational dynamics to reasonably ensure that CBP's OBP is able to achieve the following:

- *Detect* an illegal entry into the United States between the POEs
- *Identify and classify* the threat level associated with that illegal entry
- *Respond* to the area of the illegal entry
- Bring the situation to a law enforcement *resolution*.

These four elements must be accomplished to establish effective control of the borders. Effective control is achieved through the proper mix of technology, personnel, infrastructure (to include pedestrian and

vehicle fencing), checkpoint operations, and rapid response capabilities that will allow us to confront illegal cross-border activity. The appropriate mix of these components will vary depending on the challenges of the focus area and a dynamic border environment.

### **Focused Border Security Enforcement Initiatives**

The appropriate mix for deployment of Border Patrol resources is determined through the OBP's Operational Requirements Budget Based Program (ORBBP). ORBBP is a rigorous and comprehensive methodology that uses a risk-based approach to determine resource requirements, deployments, and operational tactics in a dynamic operational environment. ORBBP allows field commanders to examine and assess all factors, current and future, internal and external, affecting border security and ensure the engagement of the appropriate resources and tactics against current and projected threats and vulnerabilities. Using this methodology, OBP met or exceeded all of its performance targets for Miles of Effective Control for prior and current fiscal years.

Through the deployment of the right mix of new resources and enforcement operations supported by intelligence activities, CBP increased the FY 2007 miles of border under effective control from 599 miles to 757 miles at the end of FY 2008.

### **Intelligence Driven Operations**

#### **Border Intelligence Centers**

The mission of Border Intelligence Centers (BICs) is to prevent terrorists and terrorist weapons, smugglers and their contraband, and illegal aliens from entering the United States through real-time collection, analysis and dissemination of tactical intelligence. Originally developed as the Command and Control Intelligence Coordination Center in the San Diego Sector, BICs represent a significant enhancement to CBP's ability to rapidly collect, analyze, and disseminate and share intelligence information.

The BICs collect and analyze information through the use of databases, operational statistics, other agency intelligence reports and interviews with apprehended illegal aliens and smugglers, as well as through the use of geospatial decision support tools. The products produced by the BICs support the implementation of coordinated border enforcement operations which result in more effective and efficient deployment of resources to address evolving threats and vulnerabilities. Actionable intelligence is forwarded to decision makers at all levels within CBP, and is shared with DHS components and other law enforcement partners. These efforts support CBP's commitment to become a fully integrated intelligence-driven organization.

#### **Integrated Border Enforcement Teams**

The Integrated Border Enforcement Teams (IBETs) operate as intelligence driven enforcement teams comprised of U.S and Canadian federal, state, provincial, and local law enforcement personnel. The IBETs incorporate an integrated mobile response capability (air, land, marine) to provide participating law enforcement agencies a force multiplier in order to maximize border enforcement efforts in support of CBPs National Strategy. IBET consists of five core agencies with law enforcement responsibilities along the international boundary that share information, intelligence and resources to maximize border enforcement efficiency and

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effectiveness. The core agencies include CBP OBP, Immigration and Customs Enforcement (ICE), U.S. Coast Guard (USCG), the Royal Canadian Mounted Police (RCMP) and Canada Border Services Agency.

Since its inception, IBET has enhanced border integrity and security on both sides of the border by identifying, investigating, and interdicting persons and criminal organizations that pose a threat to the national security of both Canada and the United States. There are 24 IBETs in 15 IBET Regions. Each of these IBETs actively share information and work bi-national joint enforcement operations aimed at securing the integrity of the United States-Canada border.

## Threat-Based Surge Operations

OBP has continued to implement and fully utilize surge operations to maintain or gain operational control of the border through improved enforcement. The Border Patrol's strategy for implementing surge operations across the southwest border is based on threats, risks, vulnerabilities and the resources of our partner agencies. These operations increase the probability of apprehending terrorists and the weapons they attempt to illegally move across the border from entering the United States between the POEs. These operations also help to reduce crime in border communities. Surge operations are implemented to proactively address intelligence, seasonal migration trends, and smuggling trends.

## Operation Arizona Denial

Operation Arizona (AZ) Denial commenced on March 9, 2008 and operated through the end of FY 2008. Operation AZ Denial was designed to provide incremental levels of deterrence to prioritized areas of the border within the Tucson Sector. The purpose of the operation was to augment the Tucson Sector in its continued expansion of increased levels of operational control and to support the antiterrorism mission. As expansion is achieved, each prioritized area serves as a base to further expand operational control. As priorities advance, resources, such as SBInet, tactical infrastructure enhancements, and Border Patrol agent enhancements, will be put in place to sustain achieved gains. Operation AZ Denial uses the following multi faceted enforcement strategies to gain operational control of prioritized areas of the border:

- *Break the Smuggling Cycle*: Separates illegal aliens granted voluntary return from the smuggling organizations waiting for them upon their return. These programs include the AZ Denial Prosecutions Initiative (ADPI), Alien Transfer and Exit Program (ATEP), and Interior Repatriation Program.
- *Operational Coordination*: Creates partnerships with law enforcement agencies and other stakeholders to coordinate enforcement efforts in support of sector operations.
- *Intelligence Fusion*: Brings CBP and partner agency intelligence personnel together in a single center in which information can be fused, analyzed, and used to create tactical and operational intelligence-driven operations.
- *Focus Enhanced Enforcement Operations*: Rather than being spread throughout the Sector, resource enhancements are focused in support of operations in a priority area. Each individual enforcement assignment, operation, and initiative is used to address one or more of six prioritized border areas of focus.

Operation AZ Denial 2008 provides the roadmap that establishes station and Sector priorities for operational execution.

### **Operation Streamline**

Operation Streamline is an ongoing, progressive enforcement effort that combines intensive prosecution with expeditious removal. The effort is a collaboration between personnel and resources from DHS, to include CBP's OBP and Office of the Chief Counsel, and, ICE's Office of Detention and Removal; the Department of Justice (DOJ), to include the Executive Office for Immigration Review, the U.S. Marshals Service, and the U.S. Federal Courts. Based on threat levels and illegal entrant activity assessments in the border areas, the OBP focuses its resources on designated zones to ensure the probability of apprehension, detention, criminal prosecution, incarceration, and the ultimate removal of illegal entrants from the United States. All aliens in violation of law that are apprehended within the designated zones are charged and criminally prosecuted for violation of 8 U.S.C. 1325 (illegal entry), with a potential sentence of up to 180 days. The average sentence ranged from 15 to 90 days for illegal entrant aliens with no prior history.

Operation Streamline began on December 6, 2005, in Eagle Pass, TX, along approximately 5 miles of border within the Del Rio Sector. By the end of June 2006, Del Rio Sector expanded the operation to cover its entire area of operations. Since its inception, the operation has had a dramatic affect on reducing apprehensions within the sector, particularly "other than Mexican" (OTM) apprehensions which are down 12 percent in FY 2008 as compared to FY 2007. More significantly, FY 2008 OTM apprehensions within the Del Rio sector are 52 percent less when compared to FY 2006.

On December 12, 2006, a Streamline-like operation began in Yuma Sector, along 4 miles of border which was expanded on June 3, 2007, to its entire southern border with Sonora, Mexico for a total of 93 miles. Since inception in the Yuma Sector, the majority of the criminal complaints filed in the Yuma Sector were prosecuted. Border violence has decreased dramatically with a 56 percent reduction in the number of assaults against Border Patrol agents.

On October 31, 2007, Streamline was expanded into 60 miles of the Laredo Sector. The Sector has seen apprehensions decline 23 percent as compared to FY 2007. The Rio Grande Valley Sector also has adopted the Streamline program philosophy to include 4 miles of its operations in FY 2008 with plans to expand its Streamline program.

### **Caribbean Border Interagency Group**

The Caribbean Border Interagency Group (CBIG) was formed in July 2006 as a collaborative effort to focus and integrate DHS and DOJ assets and combat the illegal flow of Cuban migrants to Puerto Rico from the Dominican Republic. Members include the USCG; CBP Air and Marine (A&M), Office of Field Operations (OFO) and OBP; ICE and the U.S. Attorney's Office, District of Puerto Rico. CBIG has expanded its joint operations to eastern Puerto Rico and the U.S. Virgin Islands. With this expansion, CBIG has become an all threats partnership protecting the borders of the U.S. Territories in the Caribbean Basin.

This formal integration unified, at no cost, former independent and disparate operations creating a COP for the field commanders. Daily, available resources and tentative coordinated response plans are discussed between the CBIG operational planners. Through these briefings, duplication of effort between federal



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agencies has been eliminated, and integration of operations has been optimized. Since its inception in 2006, CBIG has had numerous successes that include a 14 percent increase in operational control, a 593 percent increase of criminal prosecutions, a 65 percent decrease in overall migrant flow through the Mona Passage, a small island 42 miles west of Puerto Rico, and USCG and CBP A&M interdictions of migrant vessels have decreased by 55 percent.

The CBIG operates by using employed standard operational procedures vetted by all members while following the fundamental pillars of operational integration, intelligence fusion, prosecution protocols, and joint training.

## Expedited Removal Program

In August 2006, DHS announced the end of its practice of “catch and release”. Before this, some aliens, usually OTMs, were released after apprehension due to the lack of bed space. Upon release, they agreed to appear at an immigration court for a hearing at a specified time and date in the future. Often the illegal aliens would not appear for their hearings and therefore became part of the growing illegal alien population in the United States. This was the so-called catch and release practice. As releases increased, the rate of illegal entry attempts also increased in certain geographical areas, especially among illegal aliens from Brazil and Honduras. Migration patterns shifted among the sectors that had higher release rates.

A key element of CBP’s ongoing efforts to deter illegal entry is the implementation and expansion of the Expedited Removal (ER) program to all Border Patrol sectors. ER is a removal process that requires mandatory detention of select classes of illegal aliens who can be removed from the United States without an immigration hearing. The program was expanded to include illegal aliens apprehended by Border Patrol on the southwest border and later extended to include apprehensions on the northern border. This includes illegal aliens who are present in the United States without having been admitted or paroled following inspection by a CBP officer at a designated POE and within 100 miles of the U.S. border, including those who are unable to establish their physical presence in the United States for the two week period before the date of encounter.

In the more than 2 years since the announcement of the end of catch and release, the ER program has become a routine way of doing business. As of September 30, 2008, 100 percent of aliens apprehended along the southwest and northern borders who are subject to detention pending removal and are otherwise ineligible for release from custody under U.S. immigration law are now being detained for removal. In FY 2008, the Border Patrol apprehended 51,970 illegal OTM aliens at the southwest border and 3,681 OTMs along the Northern border.

## International Liaison Unit

The mission of the International Liaison Unit (ILU) is to create and maintain positive working relationships and to foster alliances with foreign counterparts to increase border security. The alliances established by the ILU maintain open communications and mutual respect with foreign and domestic law enforcement counterparts. Previously named the Mexican Liaison Unit (MLU) that started in the El Centro Sector, the MLU was reorganized in FY 2008 as the ILU to standardize national policies and procedures for international liaison. Today, the ILU is operational in all Southwest Border Patrol sectors and has dedicated manpower resources of approximately 60 agents, with a coordinator in Washington, DC, and one coordinator



in each of the sectors participating in the program. Their successes were a direct result of the relationships formed with Mexican authorities in Federal, State, and local law enforcement having the common goal of border safety and security.

The ILU strategic goals are as follows:

- Establish, develop, and maintain effective relationships of trust and confidence with individuals representing their foreign government agencies
- Identify and develop common law enforcement objectives with foreign governments to combat border crime
- Cultivate and reinforce commitment with foreign and domestic law enforcement communities
- Develop and maintain information sharing with foreign and domestic law enforcement agencies

Agents serving under the ILU focus and engage in activities that complement and support current program operations as well as agency and department enforcement strategies.

The ILU's established partnerships have paved the way for programs like the Border Violence Protocols program, formed in an effort to reduce and provide a response to increased violence in the immediate border area along the Southwest border, and the Operation Against Smugglers Initiative on Safety and Security (OASISS). OASISS was a product of the U.S.-Mexican agreement to establish a bilateral, standardized prosecution program. The OASISS program was developed to address the increasing amount of alien smugglers across the southwest border. The program allows for alien smugglers apprehended in the United States to be prosecuted by the Government of Mexico. This program has been effective in areas along the southwest border that are affected by guidelines that make it difficult to prosecute certain alien smuggling cases. In FY 2008, 414 OASISS cases were generated, with 351 cases being accepted by the Government of Mexico.

### Forward Operating Bases

Use of Forward Operating Bases (FOBs) began in the Tucson Sector to address remote crossing points that historically have been difficult for agents to patrol because of the vast distances and time involved to access these areas. FOBs have proven to be beneficial to the detection and deterrence of illegal entries in the areas in which they have been deployed and are now utilized in the Yuma and Del Rio Sectors.

The use of FOBs directly supports the Border Patrol's mission of gaining, maintaining, and expanding operational control of our nation's borders. As the Border Patrol continues to gain control of the border, illegal migration activities and smuggler tactics shift in an attempt to identify and exploit vulnerabilities in border security measures, particularly in the more remote areas of the U.S. border. Strategically placed FOBs provide a cost-effective, secure staging facility that allows agents to be forward deployed in proximity to the border, thus improving our capability to rapidly respond to and counter these shifts in illicit cross border traffic.

### Border Patrol Checkpoint Operations

The Border Patrol currently operates a combination of 34 permanent and 94 tactical traffic checkpoints nationwide as part of a three-tiered, defense-in-depth strategy to secure our Nation's border between the POEs. This strategy involves the use of line-watch operations on the border, roving patrol operations near

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the border, and traffic checkpoints away from the border. As the third layer in the OBP defense-in-depth strategy, traffic checkpoints have proven to be a critical component in the support of line-watch and roving patrol operations. Border Patrol traffic checkpoint operations play a significant strategic and tactical role in the support of the National Border Patrol Strategy beyond the immediate border area. The primary targets of an effective Border Patrol traffic checkpoint operation are immigration violators with an emphasis on terrorists and terrorist weapons, criminals, and smugglers of humans and narcotics who have successfully evaded detection at or between the POEs.

Traffic checkpoints are generally located within 100 miles of the border. Agents at traffic checkpoints are tasked with detecting and arresting the illegal aliens and contraband within vehicles or conveyances. Smugglers often resort to main arterial highways as an avenue to further the illegal entry of their smuggling operations into the interior of the United States and away from the immediate border area. As line-watch and roving patrol operations are conducted, traffic checkpoints seek to close off the routes for those illegal activities which if left unchecked, would pose a significant threat to national security. While inspecting persons and vehicles for immigration purposes, the OBP employs specialized resources that combat terrorism and drug-smuggling activities. The use of highly trained Border Patrol Agents, drug-sniffing dogs, radiation detection equipment, and Vehicle and Cargo Inspection Systems (VACIS), a nonintrusive inspection device, provides not only opportunities to deter illegal alien migration and drug smuggling, but also to stop other forms of potentially dangerous cargo from entering the interior of the United States.

The Interim Interstate 19 (I-19) checkpoint is an effective example of the application of the checkpoint defense-in-depth strategy. I-19 is the major route of egress from the Nogales, Arizona area and, as a result, the majority of illegal traffic that enters through this corridor funnels into the I-19 checkpoint area providing the OBP an opportunity to identify and apprehend illegal aliens and smugglers as they attempt to transit through or circumvent the checkpoint.

During FY 2008, the following border enforcement successes were attributed to Border Patrol traffic checkpoint operations nationwide:

- 17,007 individuals arrested
- 2,974 cases referred for prosecution
- 3,539 narcotic seizure events accounting for approximately 34 percent of the total Border Patrol narcotic seizures

## Cooperative Enforcement Efforts – Operation Jumpstart

From June 15, 2006 to July 15, 2008, the Border Patrol conducted a very successful joint effort called Operation Jumpstart (OJS), a joint effort between CBP and the Department of Defense (DOD) to deploy National Guard troops on the southwest border. The National Guard troops performed non law-enforcement surveillance and support operations which provided a “bridge” in personnel resources as CBP continues to conduct an extensive recruiting campaign to hire 6,000 additional Border Patrol agents by the end of calendar year 2008. As a result of coordination and cooperation between the OBP and the National Guard Bureau, OJS achieved its overall objective of enhancing border security. OJS stands out as an example of what can be accomplished through a cooperative and coordinated effort between law enforcement and military forces to protect our nation’s borders.

The integration of National Guard troops into the border security mission provided valuable mission support enhancements that included entry identification teams; air assets providing aviation support; improvement of OBP's vehicle fleet readiness rate; and support in building additional tactical border infrastructure and road maintenance and repair.

## CBP Air and Marine

CBP Air and Marine (A&M) secures the borders against terrorists, acts of terrorism, drug smuggling, and other illegal activity by operating air and marine branches at strategic locations along the borders. Multimission aircraft with advanced sensors and communication equipment provide powerful interdiction and mobility capabilities directly in support of detecting, identifying, and interdicting suspect conveyances, and apprehending suspect terrorists and smugglers. CBP A&M maximizes the capabilities of air and marine assets through a cohesive joint air operations model for centralized command and control and a responsive and integrated control system for decentralized execution.



CBP A&M on patrol along the U.S. coastal border.

CBP A&M works in partnership with numerous stakeholders while performing its missions throughout the continental United States and the Western Hemisphere. This includes domestic operations at the borders; source, transit, and arrival zone operations; interior law enforcement support; and support to other agencies. Truly crosscutting within DHS and the Federal Government as a whole, the unique capabilities of CBP A&M serve as both a standalone entity and as a force multiplier. In fulfilling the priority mission of CBP to protect the borders, our geographic disposition has shifted from a concentration on the southern border to include all of our nation's borders.

## Container Security Initiative

Maritime containerized shipping is a critical component of global trade because most of the world's manufactured goods are transported in maritime cargo containers. In the United States, almost half of incoming trade (by value) arrives by containers onboard ships. More than 11 million cargo containers arrive on ships and are off-loaded at U.S. seaports each year.

Through the Container Security Initiative (CSI), sea cargo containers that pose a risk for terrorism are identified and examined at foreign ports before they are shipped to the United States. CBP receives the bill of lading and manifest data on sea containers 24 hours before the containers are loaded on vessels destined for the United States. Through partnerships with foreign governments, CSI deploys teams of CBP officials to work with their host nation counterparts to screen containers that pose a terrorism risk. CSI extends the U.S. zone of security outward so that America's borders are the last line of defense, not the first.

CSI is a reciprocal program that offers participating countries the opportunity to send their customs officers to major U.S. ports of entry (POEs) to target ocean-going containerized cargo being exported to their countries. Likewise, CBP shares information on a bilateral basis with its CSI partners.

# Overview of CBP

CSI consists of three core elements:

- Using intelligence and automated advance targeting information to identify and target containers that pose a risk for terrorism
- Prescreening those containers that pose a risk at the port of departure before they arrive at U.S. ports
- Using state-of-the-art detection technology to scan containers that pose a risk

In FY 2008 CBP officers conducted operations in 58 CSI ports overseas. These CSI ports account for approximately 86 percent of cargo containers destined for the United States. During the year, CSI continued to transition CSI Temporary Duty (TDY) personnel to permanent status and place resources at the National Targeting Center – Cargo to reduce the number of CBP officers deployed. CBP's goal by the end of FY 2009 is for CSI to maintain operations in these 58 ports and cover approximately 86 percent of the sea containers coming to the United States.

As of September 30, 2008, 35 foreign administrations have joined or have committed to join the CSI program. Strong support from countries in Europe, Asia, the Middle East, Africa, North and South America, and the Caribbean ensures that CSI will continue to receive cooperation from foreign customs administrations in those areas.

## Customs-Trade Partnership Against Terrorism

Customs–Trade Partnership Against Terrorism (C-TPAT) and its focus on strengthening supply chain security is an important layer in CBP's cargo enforcement strategy. C-TPAT asks its member partners to ensure the integrity of their security practices and communicate and verify the security guidelines of their business partners within the supply chain.

C-TPAT requires trade community participants to document and validate their supply chain security procedures in relation to the program's criteria. C-TPAT Supply Chain Security Specialists (SCSSs) and C-TPAT participants jointly conduct validations of the participants' supply chain security procedures. The validation process is essential to verifying the company's commitment to C-TPAT.

In addition to conducting validations, C-TPAT's cadre of SCSSs provide advice and guidance to trade community representatives on supply chain security issues, identify supply chain security vulnerabilities, and monitor company initiatives that address those vulnerabilities. Validations conducted by SCSSs determine the accuracy and effectiveness of companies' security profiles as applied to their foreign and domestic supply chains. As of September 30, 2008, 7,631 companies have been validated by C-TPAT SCSS and 1,725 companies have been revalidated.

During calendar year 2007, C-TPAT established two new field offices located in Buffalo, NY, and Houston, TX, which are now fully operational. Additionally, C-TPAT initiated and concluded a third-party validation program in China in accordance with the Safety and Accountability for Every (SAFE) Port Act.

## NonIntrusive Inspection

Using NonIntrusive Inspection (NII), CBP has developed a multilayered screening process to identify, target, and inspect high-risk shipments entering the U.S. The Automated Targeting System (ATS), a rules-based computer system, is used to automatically review the electronic bill of lading and manifest data of

more than 11 million containers before they arrive at U.S. POEs, allowing CBP to flag containers that are considered high risk. NII equipment is used to scan the contents of those containers identified as high risk or selected by CBP officers for further review.

CBP officers use large-scale NII equipment, such as gamma ray and X-ray imaging systems, to scan the contents of the entire containers. These units can scan the interior of a full-size, 40-foot container in less than 1 minute. Some of the currently deployed high-energy X-ray systems can penetrate more than a foot of steel. This equipment is effective at identifying a variety of illegal activity and contraband, including human smuggling, narcotics, weapons, and explosives. Large-scale NII equipment is deployed at nearly all U.S. land border crossings and seaports.

CBP uses radiation portal monitors (RPMs) to scan cargo containers for radioactive materials as they pass through vehicle-processing lanes at the land border ports, or as they are off-loaded from ships at the seaports. Officers also use personal radiation detectors to scan for signs of radioactive materials as they perform inspections on smaller vehicles and shipments. Special high-tech tools such as densitometers and fiber-optic scopes allow officers to peer inside suspicious containers. Finally, if necessary, containers are opened and unloaded for a more thorough carton-by-carton inspection by CBP Officers.

### **Canine Enforcement Teams**

CBP has the largest and most diverse law enforcement canine program in the United States. CBP canine officers and border patrol agents use specially trained detector dogs to combat terrorist threats, identify explosive threats, and interdict concealed persons, currency, agriculture, narcotics, and other contraband at the POEs, at international mail facilities, and along the border between the POEs. CBP detector dogs also perform Border Patrol search, trauma, and rescue missions.

Canine teams are assigned to 79 POEs and 85 Border Patrol stations throughout the United States. To meet both new and growing threats, the CBP Canine Program has trained and deployed canine teams in an array of specialized detection capabilities. CBP has two canine enforcement training facilities, located in Front Royal, VA, and El Paso, TX. In FY 2008, 155 detector dog teams began training.

In FY 2008, the OBP Canine Program was responsible for 62 percent of nationwide Border Patrol Narcotic Seizures. To date, the OBP canine program has increased the number of certified canine teams to over 600 and has deployed them in all 20 sectors of the Border Patrol. The program continues to expand the number of certified teams as well as training disciplines received by the canine teams to meet field operational requirements. Deployment of canines using all-terrain vehicles (ATVs), snowmobiles and horseback are being explored. In FY 2009, OBP will expand the number of cadaver, search and rescue, and track and trail canines to improve the Canine Program rapid response capabilities.

### **Advance Passenger Information System**

The Advance Passenger Information System (APIS) is the single-most critical element in our ability to identify dangerous individuals entering or departing the United States. This system receives biographical and travel document information on passengers arriving and departing by air, sea, and in some cases, the land environment (for commercial bus and rail operators). Queries look for matches with multiagency law enforcement alerts, immigrant visas, and historical databases before the passenger's arrival in the United States or departure from the United States. CBP receives advance information on passengers and crew



# Overview of CBP

sufficient for basic law enforcement queries. In addition, CBP has issued the APIS Predeparture Final Rule requiring commercial carriers to provide APIS data in advance of a passenger boarding the intended aircraft or departing on a vessel. This rule allows CBP to check all travelers against government watch lists and provide a screening response to the carrier before a boarding pass can be issued to the traveler.

## National Targeting Centers

### National Targeting Center–Passenger

The National Targeting Center–Passenger’s (NTCP’s) mission is to provide tactical targeting and analytical research in support of all CBP antiterrorism efforts. NTCP develops tactical targets from raw intelligence to detect and prevent terrorists from entering the United States. NTCP provides support to the POEs with additional research to assist officers in performing passenger examinations by supplying relevant or law enforcement information. This support includes, but is not limited to the following: (1) the recommendation of admissibility for nonimmigrants with known ties to terrorism; (2) verification of terrorist-related visa revocation records and lost or stolen passports; (3) coordination with outside agencies for positive terrorist encounters and requests for information; (4) advance passenger research for Immigration Advisory Program (IAP) personnel working overseas to identify lookout record matches before boarding; and (5) providing assistance to the Centers for Disease Control and Prevention with public health risks relating to international travel.

NTCP staff is composed of representatives from all CBP disciplines. This staff works closely with the onsite liaison staff from other organizations (including ICE, Federal Bureau of Investigation (FBI), Transportation Security Administration (TSA), Office of Intelligence, Federal Air Marshals, Department of State (DOS), and USCG to coordinate CBP’s response to information such as TSA “no-fly” matches, positive Terrorist Identities Datamart Environment (TIDE) matches, and wanted fugitives. The NTCP also has been instrumental in developing global partnerships to fight terrorism and is actively leading a Joint Targeting Initiative between CBP and our Canadian and United Kingdom (U.K.) counterparts.

Additionally, NTCP is preparing for the launch of the new Electronic System for Travel Authorization (ESTA) for screening travelers from Visa Waiver Program (VWP) countries prior to traveling to the United States. NTCP is responsible for vetting all ESTA applicants with potential threats to national security and analyzing the application denials for ESTA.

### National Targeting Center–Cargo

The National Targeting Center–Cargo (NTCC) was established to support CBP cargo-related antiterrorism activities by proactively targeting and coordinating examinations of high-risk cargo in all modes of transportation and to provide high-quality research to the CSI, Secure Freight Initiative (SFI), domestic units, and other government agencies. NTCC employs a specialized permanent and TDY staff to provide 24/7 tactical and strategic cargo researches for all modes of transportation. The NTCC staff includes CBP officers, agriculture specialists, field analysis specialists, physical scientists, intelligence research specialists, and import specialists as well as personnel representing the Food and Drug Administration, the U.S. Department of Agriculture, and USCG.



The NTCC ascertains the nexus of identified terrorists to the cargo environment by identifying passengers entering the U.S. and looking for any tangible connectivity to cargo through in-depth research. The NTCC also creates Memoranda of Information Received documents and enters them into the Treasury Enforcement Communications System to provide relevant information to all CBP officers. In addition, the NTCC supports antiterrorism efforts via the utilization of ATS cargo targeting sweeps and conducts weapons of mass effect sweeps daily with subject matter experts analyzing the results.

The NTCC supports the creation and refinement of new ATS rule sets and provides a sound foundation for the creation of Bio-Terrorism/Agro-Terrorism countermeasures. The NTCC coordinates with law enforcement agencies and the intelligence community to gather cargo targeting information, develops field expertise for domestic and overseas targeting units via a robust TDY program, and supports the International Fellowship Program, which is currently in a pilot program with officials from the Japanese Customs and Tariff Bureau.

### **Fraudulent Document Analysis Unit**

The mission of the Fraudulent Document Analysis Unit (FDAU) is to remove fraudulent travel documents from circulation and prevent the use of these documents by mala fide travelers attempting to enter the United States. FDAU program managers perform in-depth analysis of documents seized by CBP officers nationwide. These program managers also analyze intelligence from fraudulent documents seized overseas to uncover global patterns and trends. This information is shared within CBP and the DHS, and with other U.S. and foreign government agencies in the form of monthly intelligence bulletins.

CBP purchased and distributed several Video Spectral Comparator (VSC) 5000 document examination workstations to POEs with the highest rates of adverse actions related to document fraud. The VSC 5000 is a comprehensive document examination instrument, created specifically to examine travel documents, especially passports. In conjunction, the FDAU has developed a training program on the use of this equipment for examining documents and creating intelligence bulletins and training materials. By the end of FY 2008, over 129 fraud prevention officers have been designated nationwide to represent all POEs and CBP facilities. In addition to acting as subject matter experts (SMEs) for the VSC equipment, fraud prevention officers will work with the FDAU to disseminate timely tactical intelligence regarding fraudulent document use.

The FDAU is engaged in ongoing negotiations with Dutch law enforcement authorities regarding Edison TD, a global database used to verify travel and identity documents. The FDAU is the U.S. representative on the Edison TD steering committee. FDAU program managers have been trained on and are responsible for the input of numerous travel and identity documents into the Edison TD database. The FDAU is currently coordinating access to the online version of the database, which will be available for use by CBP officers at all POEs and facilities.

CBP has focused on providing in-depth and up-to-date fraudulent document detection training to its officers. The FDAU has worked with the CBP Academy and the Advanced Training Center to update their document training programs. Courses on identifying visa fraud were also added to the Virtual Learning Center. In addition, the FDAU provided training material and exemplars to other DHS entities such as TSA, and the Citizenship and Immigration Services (CIS). In coordination with upcoming issuances of state Enhanced Driver's Licenses (EDLs), the FDAU will work with the states to provide document fraud training to Department of Motor Vehicle officials who will be issuing EDLs.

# Overview of CBP

The FDAU manages the CBP Carrier Liaison Program (CLP). The goal of the CLP is to reduce the number of inadmissible passengers traveling to the United States and the number of carrier fines and penalties through partnerships and compliance. Approximately 48 CBP officers currently are trained as CLP training officers. These CLP officers regularly conduct admissibility and document examination courses for carrier personnel. In FY 2008, CLP officers have provided training to 5,665 individuals on 122 missions in 29 countries.

The combination of more advanced training, better technology, increased information access, and expanded borders through cooperation with foreign governments and carriers has significantly strengthened CBP's ability to detect and deter fraudulent document use.

## Immigration Advisory Program

The Immigration Advisory Program (IAP) is a partnership with foreign governments and commercial airlines to identify and deny boarding to high-risk travelers using advanced targeting and passenger analysis information at foreign airports before boarding aircraft bound for the United States. IAP is located at nine locations in seven countries including Tokyo, London-Heathrow, Frankfurt, Seoul, Madrid, London-Gatwick, and Manchester. In addition, CBP is working to expand IAP to two additional sites. The goals of IAP are to protect air travel and improve national security. IAP has four major objectives:

- Enhance border and air travel security by preventing terrorists and other high-risk passengers from boarding commercial aircraft destined for the United States
- Disrupt alien smuggling and human trafficking air routes
- Combat the proliferation of fraudulent travel documents used by terrorists and alien smuggling organizations
- Prevent improperly documented passengers from traveling to the United States

CBP deploys officers to key international hub airports to assist and train air carriers and host country authorities on how to screen and identify prospective passengers before they board flights to the United States. With this added security layer, CBP can respond to suspected overseas threats before flight departure and avoid delaying, canceling, or diverting flights destined to the United States.

CBP measures IAP performance by tracking the number of IAP interceptions made and the associated cost savings. Air carriers realize savings by avoiding fines; CBP realizes savings by avoiding detention and removal costs. Since its inception in FY 2004, the program saved airlines \$7.72 million in fines. It also saved the U.S. Government \$7.2 million in avoided removal and processing costs. Finally, IAP has resulted in 4,778 no-board recommendations, 260 confirmed NTC targets, and 223 fraud cases referred to host government authorities and local law enforcement.

CBP has identified the top 50 airports for possible expansion and will analyze the top 50 locations annually to ensure that IAP growth is properly directed. The Intelligence Reform and Terrorism Prevention Act of 2004 requires CBP to identify 50 foreign airports for potential IAP expansion. CBP manages program growth and resource use by focusing on the highest-risk locations based on these 50 potential IAP locations. To continue expanding the program, CBP engages many governments simultaneously and will implement the program as opportunities emerge.

CBP is currently in negotiations with several foreign governments regarding the expansion of IAP to their respective countries. Among others, these locations include Paris, Taiwan, and Hong Kong. Negotiations are also under way with governments in countries where IAP is currently deployed to expand IAP to additional airports in those countries.

### **Admissibility Review Office**

CBP's Admissibility Review Office (ARO) provides institutional knowledge and a consistent decision-making approach regarding the admissibility, inadmissibility, and exercise of discretion for inadmissible aliens under the Immigration and Nationality Act (INA). The ARO works extensively with DOS and other agencies to determine whether inadmissible aliens can legally travel as nonimmigrants with waivers. Each case requires an assessment of the risk of harm to society if CBP admits the alien, which the ARO balances with the alien's reasons for wanting to travel.

The ARO currently processes and adjudicates all waivers of inadmissibility that DOS consular officers recommend worldwide and decides all government non-immigrant waivers. It also processes and adjudicates all waiver applications submitted directly to CBP by individual international travelers.

### **Consolidated Trusted Traveler Program**

Several CBP trusted traveler programs have integrated the use of biometrics for the identification and validation of persons. The Consolidated Trusted Traveler Program (CTTP) is an umbrella of CBP's Trusted Traveler Programs (NEXUS, the Secure Electronic Network for Travelers Rapid Inspection (SENTRI), the Free and Secure Trade program (FAST), and Global Entry) that uses a common automated system to register program enrollees and perform automated identification and validation. The goals of the program are to identify and expedite low-risk travelers, and to free CBP officers to increase security at the POEs by enabling them to concentrate on higher-risk travelers.

NEXUS and SENTRI are land border management processes that provide expedited CBP processing for preapproved, low-risk travelers. In addition, NEXUS and Global Entry offer expedited CBP processing in selected Canadian preclearance and U.S. airports, respectively. Applicants must voluntarily undergo a thorough biographical background check against criminal, law enforcement, customs, immigration, and terrorist indexes. In addition, a personal interview with a CBP officer is required. Once an applicant is approved, they are issued a Radio Frequency Identification (RFID) card that will identify their record and status in the CBP database upon arrival at the U.S. POE. For SENTRI members only, an RFID transponder is also issued for the applicant's vehicle. This allows users to have access to specific, dedicated primary lanes for processing into the United States. For NEXUS participants in the preclearance airports, the member's iris is scanned, which allows users to have access to the self-service kiosks.

The FAST commercial driver program is the result of the United States, Canada, and Mexico Border Partnership Action Plan (PAP). The FAST program provides expedited processing of participants' qualifying merchandise in designated traffic lanes at select border sites. These designated FAST lanes allow FAST qualified shipments a nearly unencumbered approach up to and through the commercial facility.

# Overview of CBP

In FY 2008, CBP began deployment of the U.S. Passenger Accelerated Service System (US PASS) trusted traveler program in the air environment. US PASS will use fingerprint-based vetting and validation for expedited clearance of members.

## Secure Freight Initiative

Secure Freight Initiative (SFI) incorporates a three-pronged approach to enhance supply chain security that includes the International Container Security (ICS) program, the development of a regulation to require additional data elements for improved high-risk targeting (known as Security Filing 10+2), and initiatives to identify and acquire technology enhancements to strengthen cargo scanning and cargo risk assessment capabilities. The Security Filing portion of SFI will be addressed in the “Looking Ahead” section.

ICS uses an integrated scanning system, consisting of RPMs provided by the Department of Energy and NII imaging systems provided by CBP to scan containers as they move through foreign ports. Using optical character recognition technology, data from these systems are integrated and provided to CBP officers, who determine whether the container should be referred to the host nation for secondary examination before lading. For the CBP officers, SFI/ICS provides additional data points that are used in conjunction with advanced manifest data to assess the risk of each container coming to the United States.

On October 12, 2007, CBP met the legislative requirement of the SAFE Port Act of 2006 to establish a pilot program in three foreign ports that couples NII and RPMs to scan all U.S.-bound containers laden in those ports for radioactive and nuclear material. The SFI's ICS program is fully operational and is currently scanning all U.S. bound containers laden in: Port of Qasim (Pakistan), Puerto Cortes (Honduras), and Port of Southampton (UK).

CBP has gone beyond the legislative mandate and is deploying SFI operations on a limited basis in three additional locations that will provide diverse environments with unique challenges, such as high volume and transshipment ports. These three additional SFI locations are as follows:

- The Modern Terminal in Hong Kong, China (which became fully operational on January 2008)
- The Port of Salalah, Oman (limited operational testing is scheduled to begin in December 2008)
- The Gamman Terminal in Busan, the Republic of Korea (*operational testing is ongoing for the RPM equipment and is expected to be fully operational by the end of November, 2008*).

On August 3, 2007, the President signed Public Law 110-53, the Implementing Recommendations of the 9/11 Commission Act (9/11 Act), which requires 100 percent scanning of all U.S.-bound containers by July 12, 2012. CBP will continue to work closely with the trade community, industry, and foreign partners to implement 100 percent scanning in a thoughtful, responsible and practical manner that integrates smoothly into the global trade supply chain with minimal if any disruption to the trade.



**CBP uses the mobile VACIS to inspect vehicle contents at the POEs.**

CBP has developed a strategic direction for the SFI program, focusing on identifying high-risk trade corridors where the implementation of SFI would mitigate the risk associated with the potential introduction of Weapons of Mass Effect (WME) into the United States by way of maritime containerized cargo. Future deployments of SFI at foreign seaports will focus on those trade corridors through which high-risk containerized cargo destined to the United States transits or originates. These deployments will provide additional data for risk targeting and strengthen the DHS layered, risk-based enforcement strategy in the maritime containerized cargo environment.

### **Western Hemisphere Travel Initiative**

The Intelligence Reform and Terrorism Prevention Act of 2004 requires DHS and DOS to develop and implement a plan to require all travelers (U.S. citizens and foreign nationals alike) to present a passport or other acceptable document that denotes identity and citizenship when entering the United States. Congress amended portions of the Act in 2006. The Western Hemisphere Travel Initiative (WHTI) is the joint DOS/DHS plan to implement this 9/11 Commission recommendation and congressional mandate. The goal of WHTI is to strengthen border security and facilitate entry into the United States for citizens and legitimate international visitors.

WHTI was successfully implemented for air travel on January 23, 2007. Since then, compliance has been and continues to be extremely high (more than 99 percent). On January 31, 2008, CBP ended the practice of accepting oral declarations of citizenship alone for United States and Canadian citizens entering the U.S. across the land borders. In preparation for the implementation of WHTI at land and sea POEs on June 1, 2009, travelers are now required to present acceptable documentation to support their citizenship claims. To date, compliance at the land border is more than 94 percent.

CBP collaborated with DOS to develop the passport card for U.S. citizens use at the land borders. This document will use advanced technology, including vicinity RFID technology, to facilitate the primary inspection process and will cost less than the standard U.S. passport book. Thus far, more than 422,000 passport cards have been issued. The DOS-issued Border Crossing Card (BCC) is modeled on the passport card and will have vicinity RFID capability. It will contain multiple layers of overt, covert, and forensic security features, making it as counterfeit and tamper resistant as the passport card. The vicinity RFID capability will provide for the same electronic verification of the document as the passport card, which is a significant security enhancement over physical features alone.

RFID has been used successfully along U.S. land borders with Canada and Mexico since 1995. Through trusted traveler programs, such as NEXUS, SENTRI, and FAST, U.S. border officials are able to expedite legitimate cross-border travel and trade. Membership in these programs currently exceeds 511,000.

CBP has entered into an agreement with the State of Washington to produce enhanced driver's licenses that would meet the requirements of WHTI for border crossing. Washington State has issued more than 31,000 enhanced driver's licenses (EDLs). British Columbia also issued a limited number of EDLs. New York began issuing EDLs in September 2008 and Vermont and Arizona have entered into agreements with CBP to begin issuing EDLs by the end of calendar year 2008. Discussions are underway with other states and Canadian provinces.

Integral to the successful implementation of WHTI is the deployment of vicinity RFID infrastructure to the POEs so that border officials can read these enhanced travel documents. Site surveys to identify construc-



# Overview of CBP

tion requirements have been completed at the 38 highest-volume land border POEs. Construction has been completed at the Blaine and Nogales POEs and will be completed at the remaining ports by the end of November 2008. The actual installation of the integrated solution began in late summer 2008.

CBP has initiated deployment of the new vehicle primary client software application to U.S. land border ports. This critical software quickly and effectively provides officers with vital information on border crossers. The training and deployment of the new software has begun and will be completed by the end of FY 2008. To support this new capability, CBP has increased its training efforts for CBP personnel at the POEs regarding the detection of fraudulent documents.

## Automated Commercial Environment

Automated Commercial Environment (ACE), the modernized U.S. trade processing system, is designed to consolidate and automate cargo processing to significantly enhance border security and foster our Nation's economic security through lawful international trade and travel. Among other capabilities, CBP personnel will have automated tools and better information to decide, before a shipment reaches U.S. borders, what cargo should be targeted because of the potential risk it poses, and what cargo should be expedited because it complies with U.S. laws.

After September 11, 2001, it became evident that the Federal Government had to establish an interagency ability to ensure a central information clearinghouse with compatible databases of information on all aspects of border control. As a result, the scope of ACE was expanded to include all Federal agencies with missions tied to international trade and transportation, including related security, regulation, and analysis. The International Trade Data System (ITDS) will provide a secure, integrated, governmentwide system to meet the private and Federal requirements for the electronic collection and use of standard trade and transportation data by all Federal agencies. The decision was made to utilize the ITDS requirements, in delivering ACE functionality, to meet the needs of these agencies as well as CBP. The result is that ACE, using requirements from ITDS, will provide a "single window" for the electronic submission of all trade and transportation data.

ACE supports the following major CBP business areas: release processing, entry processing, revenue collection, account relationships, legal and policy, enforcement, business intelligence, and risk. It is in direct alignment with the President's Management Agenda (PMA). To maintain this alignment, ACE uses e-business technologies whenever possible and is governed by citizens needs. ACE also provides national account-based processing and periodic payment and monthly statement features that benefit both CBP and the trade community, as CBP moves away from transaction-by-transaction processing.

## U.S. Visitor and Immigrant Status Indicator Technology

The U.S. Visitor and Immigrant Status Indicator Technology (US-VISIT) program launched in 2004 continues to be deployed at many of our land, sea, and air POEs. This system provides CBP officers at primary and secondary inspection stations with biometric identifiers such as fingerprints (using an inkless fingerprint scanner) and photographs (using a digital camera) to verify the identity of foreign nationals wishing to enter the United States. During FY 2008, CBP began deployment of 10-fingerprint scanners to primary POE. US-VISIT's biometric information thwarts identity fraud by providing unalterable, unassailable identity information. It is an integral part of the entry-exit system that provides CBP with unique identity information to help determine whether someone has remained in the country longer than authorized. This system inter-



acts with existing criminal databases that identify people with criminal histories and those who may be linked to terrorist activities.

### **World Customs Organization**

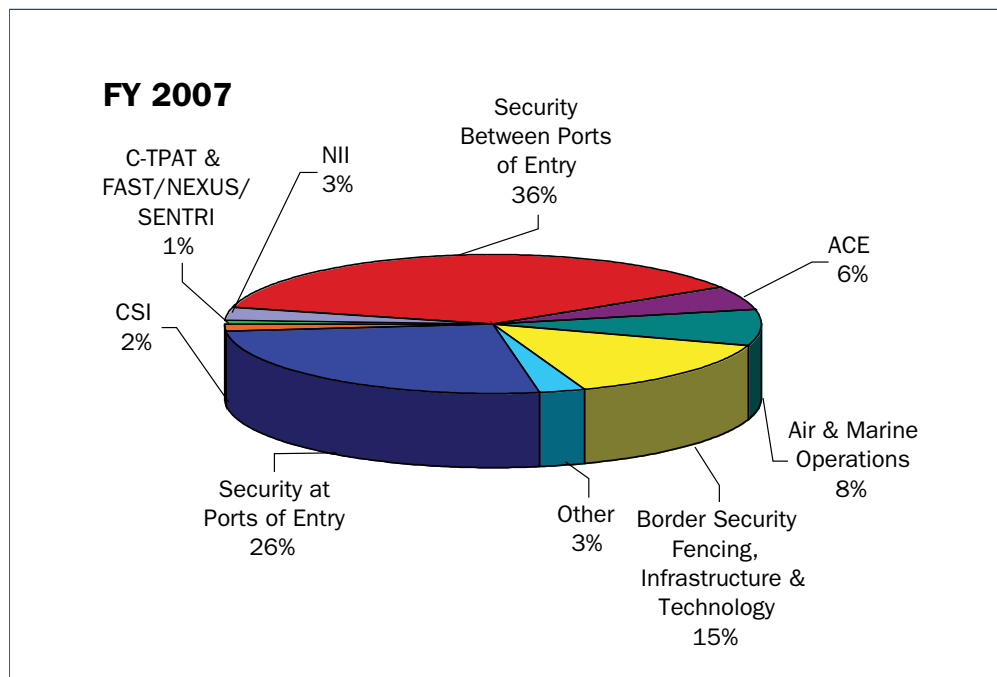
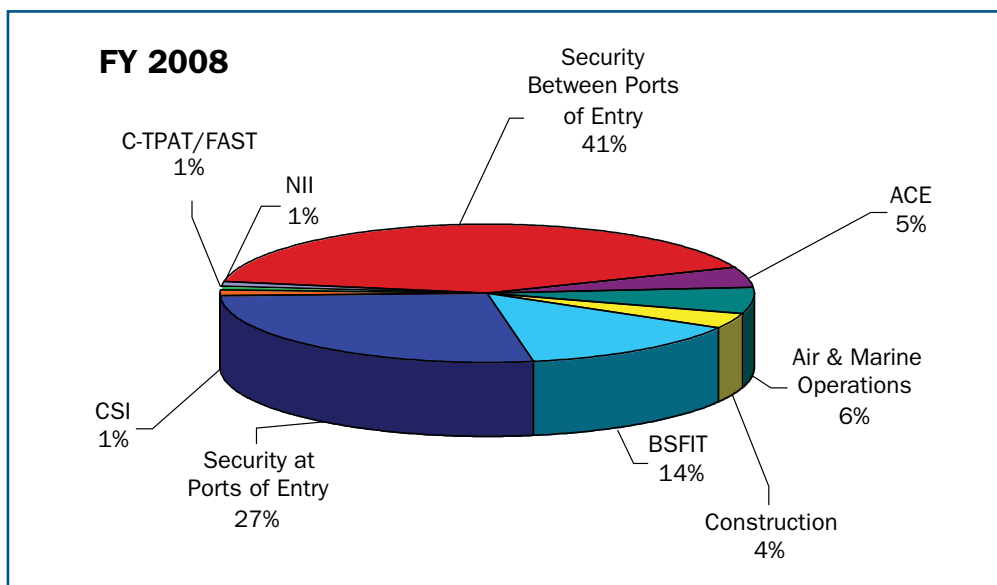
The World Customs Organization (WCO) unanimously adopted the SAFE Framework of Standards to Secure and Facilitate Global Trade (known as the “Framework”), to protect the global supply chain from the threat of terrorism and transnational crime while simultaneously facilitating legitimate trade. The WCO seeks to achieve the following:

- Consolidate advance electronic cargo information requirements
- Institute consistent risk management approaches to address security threats
- Establish procedures so that the customs administration in the destination country of a shipment can request customs in the originating country to conduct an inspection on its behalf
- Define benefits for businesses that meet supply chain security standards and best practices

The WCO established a Data Model Project Team (WCO DMPT), consisting of members, observers, and the WCO Secretariat, to develop and maintain the WCO Data Model. The WCO Data Model is a major aspect of CBP’s global response to today’s challenges in managing supply chains. Version 3 of the WCO Data Model will include requirements for the single window domain, incorporate Other Government Agencies (OGA) data (agriculture, food safety, certain hazardous goods, maritime), increase the scope for transit and response messages, and consider the implications of the Extensible Markup Language (XML) schema. Implementation represents an extraordinary challenge for the customs administration of any country, particularly for one that may not have the resources or SMEs readily available to implement the practices identified in the Framework.

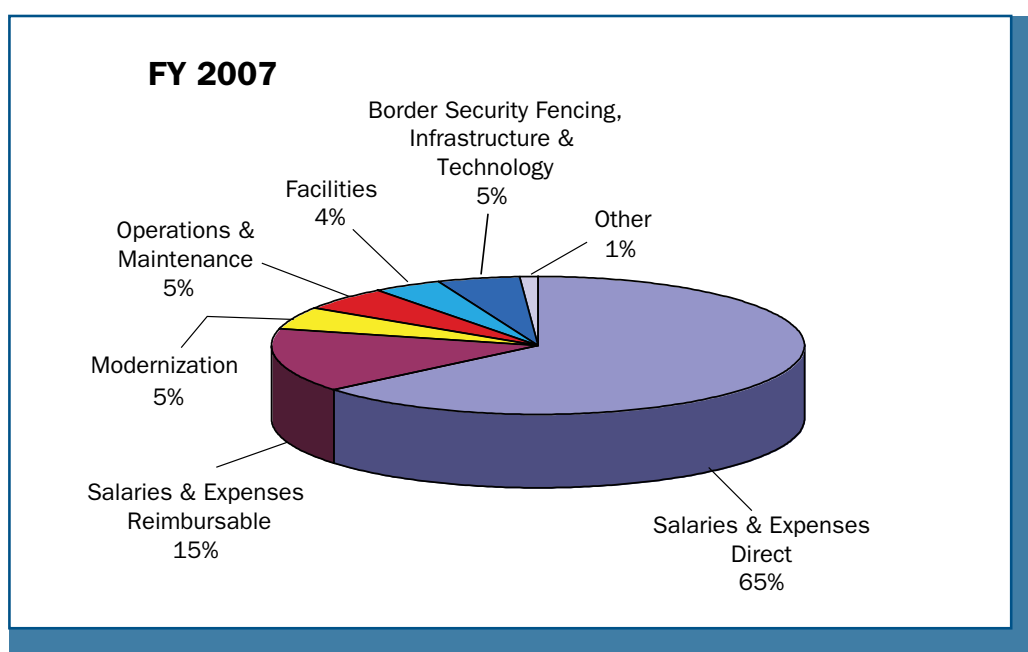
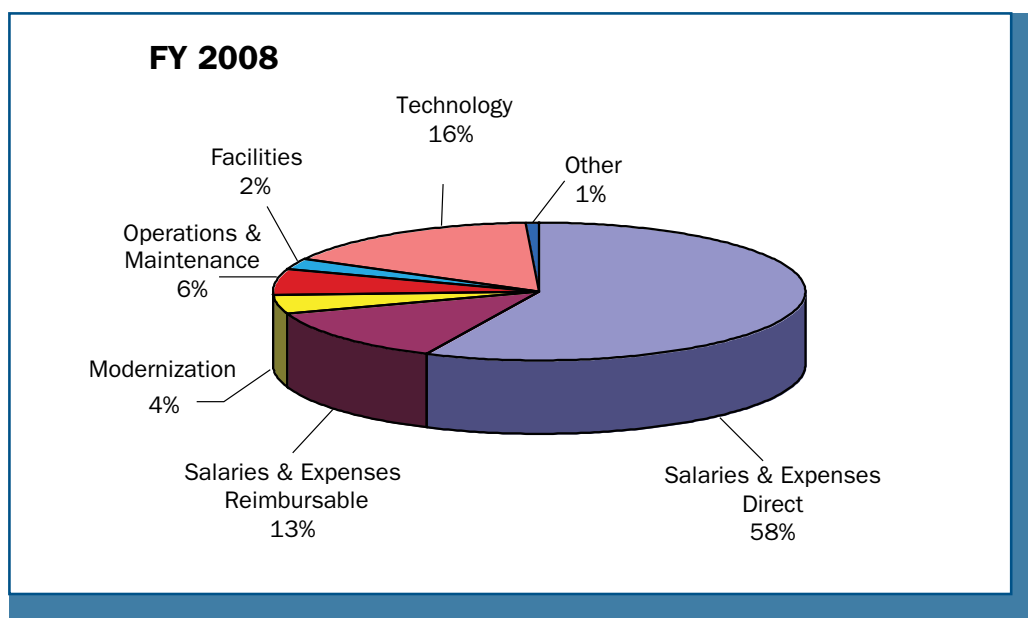
## Budget by Program

The charts below present a comparison of the fiscal year budgets by major program element for FY 2008 and FY 2007. These charts are based on direct appropriations received of \$8.1 billion in FY 2008 and \$8.2 billion in FY 2007. Direct appropriations equal total entity appropriations of \$7.9 billion during FY 2008 and \$6.7 billion during FY 2007 shown on the Consolidated Statement of Changes in Net Position, plus \$1.5 billion and \$1.5 billion in Merchandise Processing Fees transferred to and used for Salaries and Expenses during FY 2008 and FY 2007, respectively.



## Budget Resource Obligations

The charts below present a comparison of the distribution of CBP budget resource obligations for FY 2008 and FY 2007. These charts are based on current year entity obligations totaling \$11.9 billion in FY 2008 and \$9.2 billion in FY 2007. These totals do not include non-entity obligations and obligations related to prior year appropriations totaling \$2.7 billion during FY 2008 and \$3.3 billion during FY 2007 included in the Consolidated Statement of Budgetary Resources obligations totals of \$14.6 billion and \$12.5 billion for FY 2008 and FY 2007, respectively.



## Looking Ahead

CBP continues to expand and enhance mission effectiveness by its forward-looking approach to securing America's borders and the vitality of our economy.

### Security Filing (10+2)

The Security Filing (10+2) project, as mandated by Section 203 of the SAFE Port Act, requires DHS to develop regulations that ensure additional data elements for improved high-risk targeting, including appropriate security elements for entry data to be provided in advance of a vessel's lading.

This new requirement, known as the Importer Security Filing and Additional Carrier Requirements or simply 10+2, will significantly increase the scope and accuracy of information gathered on the goods, conveyances, and entities involved in the shipment of cargo to the United States. When fully implemented, the importer will be responsible for supplying CBP with 10 trade data elements 24 hours before lading while the ocean carrier will be required to provide their vessel stow plans and container status messages.

On August 21, 2008, the 10+2 Final Rule was signed by DHS Secretary Michael Chertoff and formally submitted to the Office of Management and Budget (OMB) for review. Once OMB completes their review, the 10+2 Final Rule will be published in the Federal Register with a 60-day delayed effective date to allow the trade additional time to program and test their systems with CBP. Once the final rule goes into effect, CBP will implement a 1-year informed compliance program to allow an adequate amount of time for the filing community to adjust their operating systems and processes.

### Unmanned Aircraft System

Beginning in November 2004, CBP conducted test programs using unmanned aircraft for surveillance missions along the U.S. Mexico border in Arizona. The test results were positive, and CBP initiated the Unmanned Aircraft System (UAS) in 2005. The UAS provides an efficient and reliable supplement to existing detection and intelligence gathering technologies. Unmanned aircraft have a significant advantage over manned aircraft, with the ability to fly for more than 30 hours without refueling. This technology has proven highly successful in supporting existing manned aircraft, maintaining current ground assets, and monitoring remote portions of the border that are often difficult to reach safely or that are unable to accommodate infrastructure devices. Since the start of operations in 2004, UASs have been instrumental in the apprehension of undocumented aliens, the seizure of drugs, and the recovery of stolen vehicles. UASs have proven effective in locating subjects during hours of darkness and in providing an unparalleled situational awareness and officer safety capability.



**CBP uses UAS technology for intelligence gathering.**

In March 2008, CBP A&M hosted a Joint Maritime UAS viewing at Tyndall Air Force Base (AFB), FL. The event was the culmination of more than a year's work to deploy and demonstrate the integration of a variant of the Predator B UAS within CBP A&M and USCG maritime operations. The demonstration took place in the northern Gulf of Mexico and the Florida Straits and involved air and marine assets from CBP A&M and USCG. This Gulf Coast demonstration validated the usefulness of integrating a suite of sensors (radars, electro-optical, and automated identification system (AIS)) on a UAS and applying them in an operationally relevant environment. In July 2008 CBP A&M hosted a Joint Requirements summit to determine the required capabilities of sea search radar for the maritime variant.

UASs will continue to be used in securing the border of the United States by providing strategic intelligence, surveillance, and interdiction support. CBP was the first Federal law enforcement agency to fly unmanned aircraft on a sustained basis, outside of controlled airspace, within the United States. UAS operations will expand as additional systems are delivered to the southwest border, deployed for testing and evaluation to the northern border, and reoutfitted with maritime search radars for testing and evaluation in the southeast coastal area of responsibility.

### **Marine Program Expansion**

The FY 2008 consolidated appropriation provided CBP A&M funding to establish 11 additional marine sites consistent with the A&M Strategic Plan. Six of these sites are planned along the Great Lakes region, one in Maine and the remaining four in the central Caribbean approaches to the United States.

### **Electronic System for Travel Authorization**

The Electronic System for Travel Authorization (ESTA) will allow CBP to effectively address the new requirements imposed by the 9/11 Act. Section 711 of the 9/11 Act requires that DHS develop and implement a fully automated ESTA system to collect information from aliens wishing to travel by air or sea to the United States under the Visa Waiver Program (VWP). That information will be screened to determine whether the alien presents a security risk and is eligible to travel to the United States.

In 2007, there were more than 20.9 million entries to the United States from the 27 VWP countries. Determining eligibility for VWP travel in advance of travel will reduce the number of instances in which a traveler who does not meet VWP criteria arrives in the United States and is subsequently denied admission. In such cases, the traveler and the carrier incur additional expense as immediate return to the country of origin is required.

CBP will have an opportunity to screen travelers against lookout databases to identify potential threats to the security of the United States. Screening will be limited to the Terrorist Screening Database, TSA "no-fly" list, Visa Revocation, and Lost and Stolen Passports databases. Travelers determined to be inadmissible as a result of this screening may be denied approval via ESTA to travel to the United States without a visa, but they will be given the opportunity to go to the nearest U.S. Embassy or Consulate to apply for a visa.

On August 1, 2008, CBP implemented the ESTA web site in English in a limited capacity. On October 15, 2008, CBP implemented the web-site in full capacity that includes multi-lingual capabilities for non-English speaking VWP travelers and continuous vetting. ESTA will become mandatory for all VWP travelers in January 2009.



# Overview of CBP

In addition to the ESTA web-based application, in FY 2009, CBP will acquire or develop the capability for the travel industry (travel agencies, and air and sea carriers) to create and submit ESTA applications on behalf of their customers. CBP will provide this capability with the expectation that the vast majority of VWP travelers will avail themselves of the ESTA application service offered by the travel industry.

## Model Ports of Entry Program

In January 2006, the DOS and DHS Secretaries Rice and Chertoff announced the Rice-Chertoff Initiative (RCI). The RCI is a joint vision to enhance border security while streamlining security processes and facilitating travel for legitimate visitors. As part of RCI, the Model Ports of Entry program strives to create a more efficient international arrivals process to facilitate and promote travel to the United States while improving security. Program elements include queue management, assistance for foreign travelers once they are admitted, and instructional videos.

The first two Model Ports were piloted at Dulles International Airport in Chantilly, VA, and George Bush Intercontinental Airport in Houston, TX, and became operational in April 2007. The 9/11 Act provides for the expansion of the Model Ports Program to the 20 U.S. international airports with the highest number of foreign visitors. In FY 2008 Congress appropriated \$40 million and 200 additional CBP officers to the Model Ports program.

CBP is developing an informational video that contains practical information about the entry process. The video will be played along with Walt Disney Parks and Resorts' "Welcome: Portraits of America" video to greet visitors at Model Ports. CBP is revising its signage with pictograms and minimal wording to provide international travelers with information and guidance through the entry process. The new video and signage was completed in September 2008.

CBP, DHS, DOS, airlines, airports, and the travel industry continue to work together to analyze the entry process and improve customer service. Working groups are being formed at the 18 Model Ports expansion airports to analyze and set goals for wait times, and to formalize special queuing areas for diplomats and passengers who require special processing to ensure the most efficient use of facilities and available resources. Additional queuing alternatives will be examined and tested. CBP began collecting wait times from the 20 Model Ports in April 2008. Wait times for all of the Model Ports became available on the Wait Time page on CBP.gov in June 2008.

CBP designated Passenger Service Managers (PSM), the public's point of contact for passenger service issues and complaints, at Model Ports locations in April 2008. A PSM Policy Directive was finalized and disseminated to the field. The PSMs attended their first training conference in June 2008.

The Global Entry Pilot, a benefit of Model Ports, allows for expedited CBP clearance of pre-approved low-risk air travelers at Dulles, Houston, and New York's JFK International Airport. DHS Secretary Chertoff announced the launch of Global Entry in Houston on June 6, 2008.

## Enforcement Information Technology Advances

**Remote Video Surveillance Systems.** OBP deploys Remote Video Surveillance Systems (RVSS) along the southern and northern borders to provide accurate mechanisms for detecting and identifying unauthorized border crossings. OBP relies on advanced detection, identification, and information technology to allow

agents to quickly, safely, and accurately observe and respond to unauthorized border crossings. These systems are deployed on diverse platforms and these platforms include, but are not limited to the following: Static Remote Video Systems that are located on towers, buildings, and in some areas, poles; Mobile Remote Video Systems (MRVS) that are located almost exclusively on scope trucks with the exception of the tripod types and the man portable systems; and, Trailer Remote Video Systems (TRVS) that are generally mounted on “Sky Watch” trailer systems. OBP is considering the benefits of standardizing the MRVS configuration to provide for a plug-and-play type system that can be easily moved from one platform to another.

**Mobile Processing Center.** An additional component in deploying cutting edge technology to the field is OBP’s Mobile Processing Center (MPC). The MPC is a 53-foot, reconfigured semitrailer that provides a mobile solution to mass migration, remote processing, and disaster-related incidents. The MPC, as currently configured, provides mobile solutions for processing and temporarily detaining illegal aliens. The MPC utilizes either satellite, land line (T-1), or Evolution-Data Optimized (EVDO) wireless connectivity to facilitate the processing of illegal aliens in remote locations. It may also be utilized as a support system to increase the assets of an existing station. There are also 11 Voice over Internet Protocol (VoIP) telephones provided that assist in communications. The Radio Interoperability System (RIOS) provides cutting-edge technology to facilitate communication between Federal, State, and local officials when the need arises. The MPC showed its worthiness in the field during the support of Operation Uniforce 08, which took place in Jackson, MS. The MPC is also a tested and capable command center. While on display at the 2007 Border Patrol Chief’s Conference, held at the Federal Law Enforcement Training Center (FLETC) in Brunswick, Georgia the MPC was deployed to Americas, GA, for use by the U.S. Secret Service as a command and control center in support of President Bush’s visit to the area.

### **Progressive Program Evaluation and Program Performance Measure Development**

Determining the level of effective control over any given border area involves knowledge of the area of responsibility, defined analysis of operational data, available resources, and the experience and professional expertise of the Border Patrol’s senior field managers. The analysis of operational data is then supplemented with the analysis of local law enforcement activity, environmental, economic and other third-party indicators.

As the Border Patrol looks into the future with the SBInet solution, it is examining current and future performance indicators, metrics, and measures to build a common operating picture and interoperability with DHS components and external stakeholders. It will be necessary to continue to move the measure focus toward forecasting emerging trends and shifts in illegal traffic and activities to provide more descriptive performance measures that portray conditions, impacts and outcomes to border security. Current and forward thinking performance measure methodologies and standardized collection and reporting systems (i.e. Comparative Statistics (COMPSTAT)) will help identify operationally synergetic solutions to align with and complement the technological and infrastructure solutions of SBInet and measure Border Patrol’s successes in the border areas between the POEs.

The Border Patrol has implemented COMPSTAT; a system that supports the needs of Border Patrol field and headquarters personnel by providing enterprise-wide data in a flexible, robust, and user-friendly reporting tool. Comparative statistics have always been used throughout the Border Patrol and operations are continually adjusted based on the reporting of increased or decreased activity. COMPSTAT will assist in the

# Overview of CBP

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process of making operational adjustments by providing actual enforcement statistics to field commanders and headquarters staff in a usable format as well as in an on-demand fashion.

COMPSTAT can be accessed from the user's desktop and provides statistical reports at the click of a button. The reports compile data from multiple systems used within the OBP, such as the Enforcement Case Tracking system (ENFORCE), the Border Security Evaluation Teams (BPETS), Intelligent Computer Assisted Detection system (ICAD), and others, and display the results in a usable and understandable format. During FY 2008, more than a dozen pre-formatted reports were created which currently are available in COMPSTAT. These reports allow users to enter a limited number of parameters and compile data for a specific sector or station as well as a specific date range. Comparisons can be viewed to see changes in activity levels for different time periods. Data generated by the COMPSTAT application will provide valuable operational and tactical information for field analysis. The Rio Grande Valley and Laredo sectors have been piloting COMPSTAT since October 2007. During FY 2008, several more sectors were brought online, including El Paso, Houlton, San Diego, Spokane, and Swanton. The Border Patrol intends to continue the expansion of COMPSTAT to all Border Patrol sectors and stations.

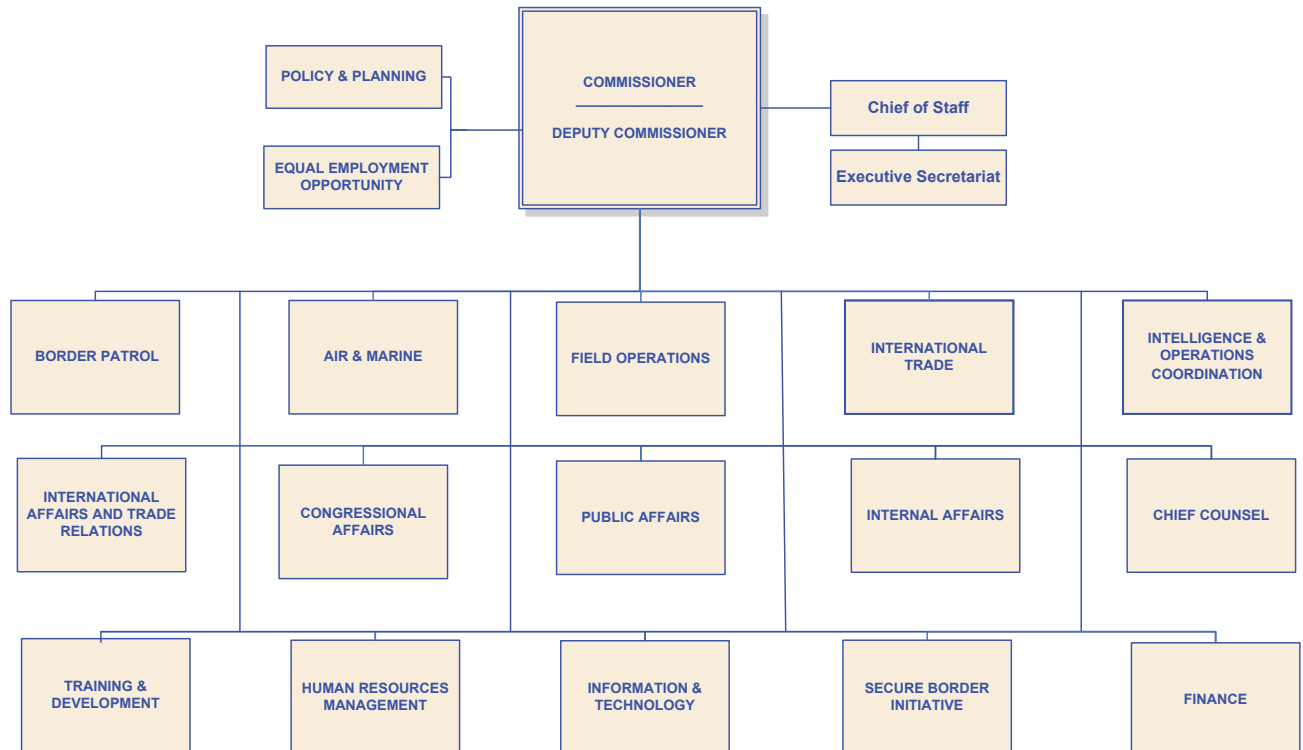
The Border Patrol is proactively looking internally at performance indicators in the area of workforce recruitment and retention. The Border Patrol is examining data collection and methodologies to measure employee satisfaction and retention for use in developing indicators that can guide efforts to ensure and maintain a productive and effective workforce.

## Summary

CBP will continue to integrate state-of-the-art technologies and traditional security infrastructures at U.S. POEs and along our Nation's borders and to work in collaboration and partnership with the trade community and foreign governments to secure the United States from terrorists and terrorist weapons while facilitating world commerce.

## Organization

### U.S. CUSTOMS & BORDER PROTECTION



## Headquarters

**Office of the Commissioner:** W. Ralph Basham was sworn in by President George W. Bush on June 6, 2006, to serve as the second Commissioner of U.S. Customs and Border Protection (CBP), the agency of the U.S. Department of Homeland Security (DHS) responsible for managing, controlling, and securing our Nation's borders. As Commissioner, Mr. Basham advances CBP's priority mission of preventing terrorists and terrorist weapons from entering the United States while facilitating legitimate trade and travel.

**Office of the Deputy Commissioner:** Jayson P. Ahern was appointed Deputy Commissioner, CBP, in August 2007. As Deputy Commissioner, Mr. Ahern is responsible for providing leadership and executive-level direction to CBP's day-to-day operations. This includes oversight of agency initiatives that facilitate the international movement of legitimate, low-risk goods and travelers while promoting effective border security.

**Office of the Chief of Staff (COS):** Serves as the direct liaison to DHS for all agency issues. COS assists the Commissioner in formulating and implementing policies through coordination with other CBP office components, DHS, and other government agencies. COS provides advice and counsel to the Commissioner in defining priorities to accomplish CBP mission and goals.

**Office of Equal Opportunity (OEO):** Ensures compliance with the civil rights statutes, regulations, and executive orders governing Federal employment without regard to race, color, religion, sex, age, national origin, sexual orientation, physical and mental disability, and/or reprisal. The OEO provides a framework for the formulation, implementation, and evaluation of CBP policies and programs. The OEO also formulates and implements policies and programs in the areas of diversity and cultural awareness, dispute resolution, equal employment opportunity (EEO) complaints processing, and EEO and civil liberties compliance.

**Office of the Executive Secretariat (OES):** Coordinates agency decisions and tasks by serving as a liaison between the Office of the Commissioner and CBP program offices. OES ensures coordination and completion of congressional reporting, responds to congressional Questions for the Record (QFRs), and manages correspondence. OES develops, implements, and manages the business process for written communication to and from the CBP Office of the Commissioner and the DHS Office of the Secretary, strengthening CBP's core management policy, and operational integration.

**Office of Policy and Planning (OPP):** Advises the executive staff on policy development and implementation in the broad array of issues addressed by CBP, including national border security policy, immigration enforcement, cargo security and facilitation, agriculture protection, interagency coordination, and legislation. The office further coordinates with individual offices and programs inside and outside the agency to develop specific strategies and planning guidance that support the CBP's mission. This includes managing the strategic planning process and performance measurement requirements related to the Government Performance and Results Act (GPRA), the Performance Assessment Rating Tool (PART), and the President's Management Agenda (PMA). In addition to the policy and planning activities of the office, OPP serves as the central coordination point for congressional reporting and all matters under review or audit by the Government Accountability Office (GAO) and the DHS Office of the Inspector General (OIG).



## Component Organizations and Field Structure

CBP is organized into 15 separate offices, each of which reports directly to the Commissioner. The mission of each office is described briefly below:

**Office of Intelligence and Operations Coordination (OIOC):** Established on October 1, 2007, OIOC combines the previous Office of Anti-Terrorism and the Office of Intelligence along with targeting and analysis functions from the Office of Field Operations (OFO), the Office of Information and Technology (OIT), Office of International Trade (OT) and the Office of Border Patrol (OBP). OIOC is responsible for the entire intelligence cycle, including planning, collection, processing, production, and dissemination of all sources of information and intelligence in support of CBP's mission. OIOC coordinates national incident response and intelligence driven special operations that require collaboration between CBP offices. OIOC is responsible for directly supporting the Commissioner and senior CBP leadership by obtaining, analyzing, and disseminating intelligence in a timely manner to help CBP carry out its primary mission of detecting, identifying, and preventing terrorists and terrorist weapons from entering the United States. OIOC directs and efficiently manages an integrated intelligence capability that ensures that frontline operators and senior leadership have the value-added intelligence required to drive operations and support policy.

**Office of International Trade (OT):** Provides the unified strategic direction for trade policy and facilitation, program development, and enforcement response functions in CBP. Established in FY 2007, to consolidate trade policy and program development functions, OT directs national enforcement responses through effective targeting of goods crossing the border as well as strict, swift punitive actions against companies participating in predatory trade practices, including textile transshipment and intellectual property rights infringement. Through coordination with international partners and other U.S. Government agencies, OT directs CBP risk-based programs designed to detect and prevent the importation of contaminated agricultural products, goods that present health and safety risks, and products requiring protection from unfair trade practices. OT is an agency leader in promoting trade facilitation through partnership programs. OT streamlines the flow of legitimate shipments and fosters corporate self-governance to achieve compliance with trade laws, regulations, and international trade agreements. A risk-based audit program is used to respond to allegations of commercial fraud and to conduct corporate reviews of internal controls to ensure that importers comply with trade laws and regulations. Finally, OT provides the legal tools to promote facilitation and compliance with customs, trade, and border security requirements through the issuance of CBP regulations, binding rulings and decisions, informed compliance publications, and structured training and outreach on international trade laws and CBP regulations.

**Office of Secure Border Initiative (SBI):** Is accountable for the development and oversight of the SBI<sup>net</sup> and transportation programs. Established in FY 2007, the SBI office provides CBP-wide coordination, analysis, and integration of SBI-related programs and activities. In addition, SBI serves as an integrator and a facilitator for border security programs and activities, particularly those that impact multiple CBP organizations or require strategic coordination and perspective.

# Overview of CBP

**Office of CBP Air and Marine (A&M):** Protects the American people and Nation's critical infrastructure through the coordinated use of integrated air and marine forces to detect, interdict, and prevent acts of terrorism and the unlawful movement of people, illegal drugs, and other contraband toward or across the borders of the United States. CBP A&M's core competencies include air and marine interdiction, air and marine law enforcement, and air and national border domain security. CBP A&M further supports DHS missions such as response and recovery to natural disasters and terrorism.

**Office of Border Patrol (OBP):** Serves as the CBP law enforcement organization with the primary responsibility for preventing terrorists, weapons of terrorism, illegal aliens, drugs, and those who smuggle them from entering the United States between the POEs. The Border Patrol is organized into 20 sectors along the southwestern, northern, and coastal areas of the United States.

**Office of Chief Counsel (OCC):** Serves as the chief legal officer of CBP and reports to the General Counsel of DHS. The Chief Counsel serves as the Ethics Officer for the organization and is the principal legal advisor to the Commissioner of CBP and its officers. The OCC provides legal advice to and legal representation of CBP officers in matters relating to the activities and functions of CBP.

**Office of Congressional Affairs (OCA):** Advises CBP managers on legislative and congressional matters and assists members of Congress and their staffs in understanding current and proposed CBP programs.

**Office of Field Operations (OFO):** Enforces customs, immigration, and agriculture laws and regulations at U.S. borders and has the primary responsibility for preventing terrorists and terrorist weapons from entering the United States at the POEs. OFO maintains programs at 20 field operation offices; 327 POEs, which include 15 preclearance stations in Canada, the Caribbean, and Ireland; and 58 CSI ports worldwide. A Director of Field Operations heads each field operations office. Port Directors oversee POEs in their operational areas, where virtually all conveyances, passengers, and goods legally enter and exit the United States. OFO oversees the enforcement of laws and regulations while ensuring the safe and efficient flow of goods and people through the POEs.

**Office of Finance (OF) and Chief Financial Officer (CFO):** Oversees all financial operations, procurement, asset management, and budget activities within CBP. OF is responsible for administering \$12 billion that is budgeted annually for law enforcement and trade operations and collecting more than \$34 billion in custodial and entity revenue annually. This office is responsible for administering the broad range of financial management activities delineated under the CFO Act of 1990, including accounting, budgeting, procurement, asset management, financial systems, and financial management.

**Office of Human Resources Management (HRM):** Provides human resources support by filling positions, offering employee services and benefits, processing personnel actions, improving business processes, and facilitating workforce effectiveness. HRM promotes and enables mission accomplishment through human capital planning and utilization, strategic leadership, labor-management relations, training, and employee safety.

**Office of Information and Technology (OIT):** Provides CBP with information, services, and technology solutions to secure the border, prevent the entry of terrorists or terrorist weapons, and facilitate legitimate trade and travel. In addition, OIT operates a worldwide, round-the-clock secure, stable, and high-performance Information Technology (IT) infrastructure and supports tactical communications, scientific solutions, and forensic services. OIT implements and supports CBP's IT, automation, and technology strategies. OIT personnel manage all computers and related resources, including all operational aspects of the Computer Security Program. OIT establishes requirements for computer interfaces between CBP and various trade groups and government agencies, and manages matters related to automated import processing and systems development.

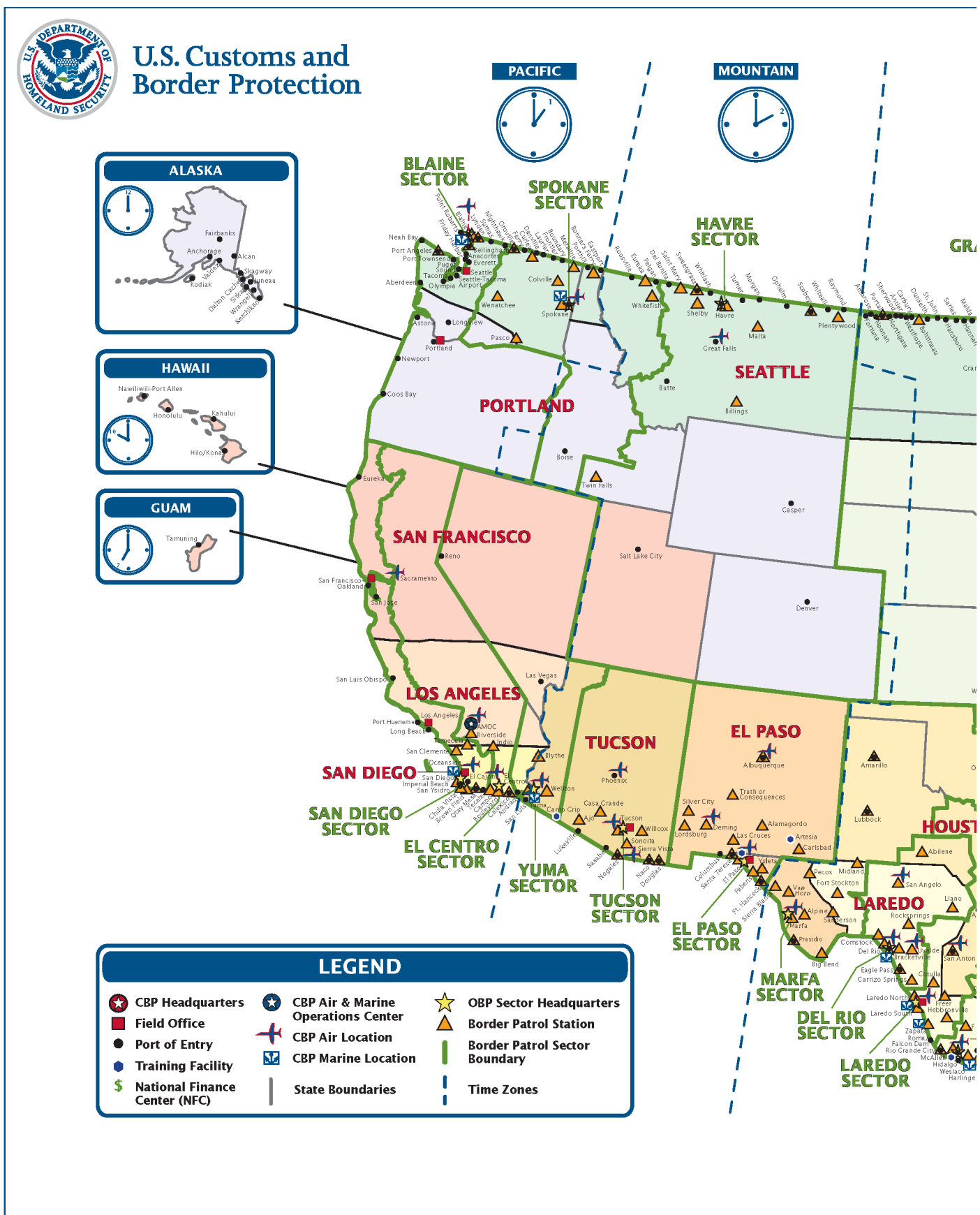
**Office of International Affairs and Trade Relations (INATR):** Facilitates and supports all international programs, activities, and foreign initiatives for CBP. Re-organized in FY 2007, INATR conducts outreach to and serves as a resource for the international trade community on a range of CBP policy issues. INATR works with international partners to implement programs and initiatives to combat international terrorism and to extend the Nation's borders. INATR achieves these objectives by developing and maintaining collaborative relations with foreign governments, devising international strategies, advocating CBP positions in international forums, delivering international technical assistance and training, and supporting the negotiation of international agreements.

**Office of Internal Affairs (IA):** Exercises oversight authority for all aspects of CBP operations, personnel, and facilities. IA is responsible for ensuring compliance with all bureauwide programs and policies relating to corruption, misconduct, or mismanagement; investigating misconduct by CBP employees; and executing the internal security, integrity, and management self-inspection programs. IA conducts preemployment polygraph testing on a strategic selection of applicants, in support of CBP law enforcement hiring. In addition, IA conducts personnel security investigations; educates employees concerning integrity responsibilities; evaluates physical security threats to CBP facilities and sensitive information; and inspects CBP operations and processes for managerial effectiveness and improvements.

**Office of Public Affairs (OPA):** Communicates CBP's mission and operations to the agency's chief stakeholders, which include the American public, foreign nationals who conduct business in the United States, international trade entities, and travelers who cross U.S. borders. Tools used in the national and international public communication process include media outreach and public information campaigns conducted via media events, video, photography, and informational brochures. In addition, CBP maintains a public web site ([www.cbp.gov](http://www.cbp.gov)) and a national customer service call center to address public questions and complaints. OPA also keeps the CBP workforce informed through the CBPnet Intranet site, the weekly e-mailed news compilation "Frontline News," and mass e-mails. A bimonthly newsletter, "CBP Today," is distributed to CBP personnel and other stakeholders nationwide.

**Office of Training and Development (OTD):** Leads and directs CBP's training programs. OTD ensures that all training efforts support the CBP mission and strategic goals, meet the needs of a diverse and geographically dispersed workforce, and contribute to measurable outcomes and results. OTD establishes standards for designing, developing, delivering, and evaluating training. The office directly executes career development programs; basic and advanced training to all occupations; and supervisory, management, and executive development programs.

# Overview of CBP





Revised 05/07



# Performance Goals and Results

In FY 2008, CBP made significant progress toward achieving the long-term goals set forth in the Strategic Plan for FYs 2005–2010. Agency progress is described in this PAR. The information is set forth in the context of the Government Performance and Results Act of 1993, which requires Federal agencies to develop and implement processes to plan for and measure mission performance.

## Performance Management

The CBP comprehensive strategic planning process maintains its focus on improving program efficiency and effectiveness, maintaining a results-oriented focus, clearly describing the goals and objectives of programs, and developing a means to measure progress. CBP is continually refining and improving its performance measures and the data integrity of these measures. The CBP Strategic Plan is based on the priorities that were established and articulated by the Secretary of Homeland Security and the Commissioner of CBP. The Strategic Plan is prepared with input from senior managers to reflect these priorities and supports the CBP budget submission. The development process has considered the DHS Strategic Plan, the National Strategy for Homeland Security, the National Money Laundering Strategy, the National Drug Control Strategy, Presidential Directives on National Security, and Executive Orders. In addition, the PMA, budget justification materials, internal strategic planning initiatives, and the DHS Future Year Homeland Security Program (FYHSP), used to formulate, analyze, and report the DHS planning and budgeting process, were considered. Finally, evaluations conducted through the GAO, the DHS OIG, and the PART processes have also been assessed.

The CBP strategic planning framework is organized as follows:

- **Strategic Goal:** A high-level statement of what needs to be achieved
- **Objectives:** Specific statements of what is to be accomplished within the goal
- **Strategies:** Specific actions that are to be taken to reach an objective
- **Performance Measures:** What will be accomplished by carrying out the strategies

Each strategic goal is presented using the CBP strategic planning framework and has been determined on the basis of future assumptions, previous accomplishments, and the need to integrate diverse CBP responsibilities effectively. The goals are further linked to specific objectives and strategies, as well as performance measures that are used to evaluate progress toward achieving the goals. This strategic planning process has resulted in the formulation of six strategic goals and associated objectives and measurements.

## FY 2008 Performance by Strategic Goal

This section presents a discussion of highlighted FY 2008 performance objectives and related key performance measures for each of CBP's strategic goals. Additional performance measures and results can be found in the "Performance" section under "Performance Summary," beginning on page 62.

## Strategic Goal 1. Preventing Terrorism at the Ports of Entry

To achieve this strategic goal, CBP implements the strategic plans for preventing terrorists and terrorist weapons from entering the United States. Through improved targeting and intelligence, CBP targets and interdicts terrorists and their weapons at the POEs. Through various programs, CBP screens and examines passengers, cargo, and conveyances posing a potentially high risk for terrorism before departing foreign ports for the United States. To protect legitimate travel, trade, and the economy, CBP extends its zone of security beyond the physical borders of the United States by stationing its offices in foreign countries and by partnering with international entities and the trade community.

**Performance Objective**—Improve identification and targeting of potential terrorists and terrorist weapons through risk management and automated advance and enhanced information.

To improve targeting of cargo and passengers that pose a potential risk for terrorism, CBP will continue to use advance passenger and cargo information, as well as commercial and law enforcement databases, to prescreen, target, and identify potential terrorists and terrorist shipments and any related activity. To improve targeting and analysis, CBP will integrate existing databases and enhance its rules-based targeting system.

| Performance Measure—Number of foreign cargo examinations resolved in cooperation with the Container Security Initiative (CSI). |   |                |                |                |                |                 |
|--|---|----------------|----------------|----------------|----------------|-----------------|
| Description:   | The number of container examinations processed or mitigated by foreign customs officials that were identified by CBP CSI as higher risk and accepted as meeting CBP examination standards and requirements. This measure provides an indicator of the benefit of locating CBP officers at foreign locations that are cooperating with CBP under CSI.  |                |                |                |                |                 |
| Key Highlights   |   |                |                |                |                |                 |
| Fiscal Year:   | FY 2004 Actual  | FY 2005 Actual | FY 2006 Actual | FY 2007 Actual | FY 2008 Target | FY 2008 Results |
| Target/Actual Indicator:   | 2,400   | 25,222         | 30,332         | 18,438         | 19,000         | 13,009          |
| Explanation of FY 2008 Results:  | <b>Target Not Met</b> —The increased collaboration of foreign and co-located CSI customs personnel at foreign ports reflected by this proxy measure supports the goal of targeting, screening, and apprehending high-risk international cargo and travelers to prevent terrorist attacks, while providing processes to facilitate the flow of safe and legitimate trade and travel. CSI teams’ container targeting effectiveness improved in FY 2008 such that the number of containers that required assistance by host nation intelligence to mitigate high-risk shipments decreased significantly. |                |                |                |                |                 |
| Recommended Action:  | The reduction observed for this measure in FY 2008 was the result of further efficiency improvements to the Automated Targeting System (ATS) targeting algorithms and increased use of non-intrusive inspection (NII) or physical examinations to examine high-risk shipments. Because of these permanent improvements in effectiveness for this measure, CBP expects to maintain this level of activity on an on-going basis for the foreseeable future.   |                |                |                |                |                 |
| Data Source: CBP Automated Targeting System  |   |                |                |                |                |                 |

# Performance Goals and Results

**Performance Objective**—Push the Nation’s zone of security outward beyond its physical borders through partnerships and extended border initiatives to deter and combat the threat of terrorism.

Working with foreign attaché officers, foreign governments and the trade community, CBP prescreens and targets shipments and containers that pose a potential risk for terrorism, before they arrive at U.S. POEs, using advance manifest information. The CBP CSI establishes a physical presence at foreign ports, shares intelligence, and leverages technology to enhance the screening and examination of containers.



**The prescreening of cargo containers before they reach U.S. POEs deters and combats the threat of terrorism.**

CBP will continue to work with its foreign government counterparts to increase detection and interdiction capabilities of people, goods and materials from the points of origin through their transit areas to their final destination.

| <b>Performance Measure</b> —Percent of worldwide U.S. destined containers processed through CSI ports.                           |  |                   |                   |                   |                   |                    |
|--|--|-------------------|-------------------|-------------------|-------------------|--------------------|
| Description:   | The percentage of worldwide U.S.-destined containers (tracked via their respective bills of lading) processed through CSI ports as a deterrence action to detect and prevent terrorist weapons of mass destruction/effects (WMD/WMEs) and other potentially harmful materials from leaving foreign ports bound for U.S. ports. |                   |                   |                   |                   |                    |
| <b>Key Highlights</b>  |  |                   |                   |                   |                   |                    |
| Fiscal Year:   | FY 2004<br>Actual  | FY 2005<br>Actual | FY 2006<br>Actual | FY 2007<br>Actual | FY 2008<br>Target | FY 2008<br>Results |
| Target/Actual Indicator:   | 45%  | 73%               | 82%               | 86%               | 86%               | 86.1%              |
| Explanation of FY 2008 Results:  | <b>Target Met</b> —During FY 2008, the CSI Program operated at 58 foreign ports, through which 86.1% of the worldwide total of U.S.-destined containers was processed. The CSI ports included constitute the 58 largest international shipping ports.  |                   |                   |                   |                   |                    |
| <b>Data Source:</b> Shipping volume processed through the ports (bills of lading), Port Import Export Reporting Service (PIERS). |  |                   |                   |                   |                   |                    |

## Strategic Goal 2. Preventing Terrorism Between Ports of Entry

To achieve this strategic goal, CBP is implementing the National Border Patrol Strategy, with the goal of establishing and maintaining control of the borders. The CBP Border Patrol will employ a highly centralized and strengthened organizational model. Border security will be maximized with an appropriate balance of personnel, equipment, technology, communications capabilities, and tactical infrastructure. Further, CBP plans to expand the anti-terrorism mission of the Border Patrol through a national command structure, partnerships, intelligence sharing, training, technology, infrastructure support, and the use of specialized rapid-response teams.



U.S./Mexican border.

**Performance Objective**—Maximize border security along the northern, southern, and coastal borders through an appropriate balance of personnel, equipment, technology, communications capabilities, and tactical infrastructure.

Differing threats result from the diversity of the borders and require CBP to maintain flexibility in its border security approach. To support border control efforts between the POEs, CBP will leverage technology, tactical infrastructure, and facilities to maximize the effectiveness of Border Patrol agents. CBP intends to add remote monitoring technology along the borders, which will improve our ability to assess threats and determine likely illegal border entry scenarios and locations.

**Performance Measure**—Border miles under effective control (including certain coastal sectors).

|  |  |                   |                   |                   |                   |                    |
|--|--|-------------------|-------------------|-------------------|-------------------|--------------------|
| Description:   | The number of border miles under control where the appropriate mix of personnel, technology, and tactical infrastructure has been deployed to reasonably assure that when an attempted illegal alien is detected, identified, and classified, the Border Patrol has the ability to respond and the attempted illegal entry is brought to a satisfactory law enforcement resolution. As the Border Patrol continues to deploy additional resources based on risk, threat potential, and operational need, the number of miles under control will increase.  |                   |                   |                   |                   |                    |
| Key Highlights   |  |                   |                   |                   |                   |                    |
| Fiscal Year:   | FY 2004<br>Actual  | FY 2005<br>Actual | FY 2006<br>Actual | FY 2007<br>Actual | FY 2008<br>Target | FY 2008<br>Results |
| Target/Actual Indicator:   | N/A  | 288 Miles         | 449 Miles         | 599 Miles         | 674 Miles         | 757 Miles          |
| Explanation of FY 2008 Results:  | <b>Target Met</b> —The Border Patrol’s target of 674 for Miles of Effective Control in FY 2008 was exceeded by 83 miles. Focusing on the right combination of personnel, technology, and infrastructure along with partnerships and special enforcement operations enabled positive results in preventing, deterring, or apprehending illicit cross-border traffic. The Border Patrol was able to bring the 599 Miles of Effective Control at the beginning of FY 2008 to 757 miles as of September 30, 2008, a 26 percent increase which is significant progress towards securing our nation’s borders. |                   |                   |                   |                   |                    |
| Data Source: Operational Requirements Based Budget Program (ORBBP) database. |  |                   |                   |                   |                   |                    |

# Performance Goals and Results

|  |   |                |                |                |                |                 |
|--|---|----------------|----------------|----------------|----------------|-----------------|
| <b>Performance Measure</b> — Total number of cumulative miles of permanent tactical infrastructure constructed.                              |   |                |                |                |                |                 |
| Description:   | The total number of permanent cumulative miles of tactical infrastructure constructed. Tactical infrastructure consists of barriers built to deter or delay illegal entries into the United States. Tactical infrastructure includes pedestrian fencing, all-weather roads, vehicle fence and permanent lighting installed in the border areas to support border enforcement activities.  |                |                |                |                |                 |
| <b>Key Highlights</b>  |   |                |                |                |                |                 |
| Fiscal Year:   | FY 2004 Actual  | FY 2005 Actual | FY 2006 Actual | FY 2007 Actual | FY 2008 Target | FY 2008 Results |
| Target/Actual Indicator:   | N/A   | N/A            | N/A            | 400.2 Miles    | 600 Miles      | 501.6 Miles     |
| Explanation of FY 2008 Results:  | <b>Target Not Met</b> —In FY 2008, SBI programs completed construction of nearly 101.4 miles of additional permanent tactical infrastructure. This includes an additional 49.0 miles of primary fence (for a total of 203.7), another 5.2 miles of all-weather roads (for a total of 79.5) were constructed, an additional 44.2 miles of vehicle fence were added (for a total of 153.7), and 3.0 miles of lighting (for a total of 64.7) were installed on the border to support border enforcement activities. Providing for over 501.6 miles of tactical infrastructure.   |                |                |                |                |                 |
| Recommended Action:  | The FY 2008 tactical infrastructure goal of 600 miles included an estimate for the combined miles of fence, roads, and lighting. However, DHS fence goals are aligned to calendar year 2008 timeframes, not FY 2008. CBP has experienced delays in building fence due to land/parcel acquisitions from land owners. DHS is engaged in litigation and court proceedings to resolve these issues. DHS remains committed to achieving the overall fence goal in the areas that the border patrol has identified as operational priorities. At the end of calendar year 2008, DHS believes it can get close to that goal, in terms of miles that are finished, or under construction, or in some cases under contract. In fact, over 100 miles of primary fence and vehicle fence are currently under construction. This delay should not impact FY 2009 targets. |                |                |                |                |                 |
| <b>Data Source:</b> Permanent tactical infrastructure implementation plans and installation progress data in ORBBP, SAP, ENFORCE, and BPETS. |   |                |                |                |                |                 |



## Strategic Goal 3. Unifying as One Border Agency

Through Strategic Goal 3, CBP continues to create a uniformed law enforcement workforce that works together in a professional manner with courtesy and respect toward the public, and that is recognized worldwide.

**Performance Objective**—Establish a unified primary inspection process for passenger processing at all POEs into the United States and fully integrate analysis and targeting units.

Electronic targeting systems allow CBP the ability to accurately and efficiently identify a potential risk to border security in any conveyance entering the United States. This effort is improved by linking data sources from CBP automated systems and other government agencies, through the ACE, as a single source for border decision makers.



**CBP Officer processes individuals as they enter the United States.**

**Performance Measure**—Total number of linked electronic sources from CBP and other government agencies for targeting information.

|              |  |
|--------------|--|
| Description: | The number of electronic sources to which CBP information technology systems are linked to share information for targeting purposes. The ability to accurately and efficiently identify a potential risk to border security in any conveyance entering the United States is improved by linking data sources from CBP automated systems and other government agencies, through ACE, as a single source for border decision makers. |
|--------------|--|

### Key Highlights

| Fiscal Year:                    | FY 2004 Actual   | FY 2005 Actual | FY 2006 Actual | FY 2007 Actual | FY 2008 Target | FY 2008 Results |
|---------------------------------|--|----------------|----------------|----------------|----------------|-----------------|
| Target/Actual Indicator:        | N/A  | N/A            | 9              | 16             | 19             | 19              |
| Explanation of FY 2008 Results: | <b>Target Met</b> —CBP successfully met the FY 2008 target for this measure to increase the number of electronic sources to which CBP information technology systems are linked to share information for targeting purposes. These linkages are to databases both within and outside of DHS. In FY 2008, the addition of the SFI foreign port data sources have further enriched targeting information to DHS. Access to linked electronic data sources provides CBP with efficient use of more information for vetting security risk. |                |                |                |                |                 |

**Data Source:** Targeting and Analysis Systems Program Office (TASPO).

# Performance Goals and Results

## Strategic Goal 4. Facilitating Legitimate Trade and Travel

To achieve Strategic Goal 4 and improve risk assessment, CBP uses state-of-the-art modeling technologies that aid in identifying high risk for commercial enforcement. CBP will continue to deploy NII technology, including radiation detection equipment such as personal radiation detectors, radiation isotope identification devices, and RPMs, as well as other screening technologies that support a layered inspection process. These and other initiatives help identify risks while preventing unnecessary delays in processing cargo and people.



Biometric information such as digital photographs are captured on foreign travelers seeking entry into the United States.

**Performance Objective**—Modernize automated import, export, and passenger processing systems to improve risk assessment and enforcement decision making.

CBP is developing and improving systems that can provide advance manifest information for prescreening cargo containers, agricultural products, and passengers. Trade and passenger related intelligence will be analyzed and distributed in a fast, meaningful way. Systems capable of linking law enforcement and other agency databases into one integrated database are being developed.

**Performance Measure**—Percent of CBP workforce using ACE functionality to manage trade information.

|              |  |
|--------------|--|
| Description: | The number of CBP personnel using the ACE, compared with the targeted adoption rate shows that internal personnel have easier and quicker access to more complete, accurate, and sophisticated information than in the past. |
|--------------|--|

### Key Highlights

| Fiscal Year:             | FY 2004<br>Actual | FY 2005<br>Actual | FY 2006<br>Actual | FY 2007<br>Actual | FY 2008<br>Target | FY 2008<br>Results |
|--------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|
| Target/Actual Indicator: | N/A               | 8%                | 23%               | 30%               | 40%               | 38.3%              |

|                                 |   |
|---------------------------------|---|
| Explanation of FY 2008 Results: | <p><b>Target Not Met</b>—ACE's deployment strategy includes the introduction of system functionality performed by different CBP user groups over time. As the agency's ACE user base expands, cargo information will be more widely available to a broader range of CBP personnel. Our estimate of the expected population of CBP will be reevaluated regularly to verify it represents the number of personnel that will use ACE to manage trade information. Almost 40% of the expected population of CBP ACE users (approximately 25,000) are now using ACE to perform their job duties. The number of CBP employees using ACE is a direct result of the timing of ACE releases to the field. The Cargo Systems Program Office (CSPO) is making process improvements that will help us stay on schedule in FY09 because they will focus more funding on system development and, as a result, help achieve our CBP user goals. Those initiatives include (1) Reduce CSPO overhead/project management costs; and (2) Eliminate contract support.</p> |
|---------------------------------|---|

|                     |  |
|---------------------|--|
| Recommended Action: | No action required. Performance reflects a delay in ACE capability deployment. Planned releases that would have added to the universe of CBP employees using ACE were delayed but will be deployed in FY 2009. |
|---------------------|--|

**Data Source:** ACE system-use metrics.

## Performance Goals and Results

|  |   |                   |                   |                   |                   |                    |
|--|---|-------------------|-------------------|-------------------|-------------------|--------------------|
| <b>Performance Measure</b> —Number of trade accounts with access to ACE functionality to manage trade information. |   |                   |                   |                   |                   |                    |
| Description:   | The extent to which ACE is made available to and used by members of the trade community (importers, brokers, carriers, etc.) to process and manage trade-related information.   |                   |                   |                   |                   |                    |
| Key Highlights   |   |                   |                   |                   |                   |                    |
| Fiscal Year:   | FY 2004<br>Actual   | FY 2005<br>Actual | FY 2006<br>Actual | FY 2007<br>Actual | FY 2008<br>Target | FY 2008<br>Results |
| Target/Actual Indicator:   | N/A   | 1%*               | 3,737**           | 11,950            | 14,000            | 15,465             |
| Explanation of FY 2008 Results:  | <p><b>Target Met</b>—ACE and its secure data portal feature offers unprecedented information integration and centralization via a Web-based access point that connects CBP, the trade community and other participating government agencies. Over 15,000 ACE trade user accounts have now been established. The number of trade accounts is due in large part to the deployment of the Master Data and Enhanced Accounts capabilities in September 2007. This release expanded the number of ACE account types to include virtually every entity doing business with CBP, provided enhanced ACE Secure Data Portal account management features, and established the foundation for a more integrated, account-based capability in ACE.</p> <p>Note:<br/>*Performance measure was previously reported as percent of trade accounts with access to ACE functionality to manage trade information.<br/>**FY 2006 actual has been restated as a number.</p> |                   |                   |                   |                   |                    |
| Data Source: Cargo Systems Program Office.   |   |                   |                   |                   |                   |                    |

**Performance Objective**—Promote industry and foreign government partnership programs.

Through work with the World Customs Organization (WCO) and the G-8, CBP continues to lead the international customs community in developing and ensuring rapid implementation of global supply chain security standards. To increase maritime port security, the agency will work to internationalize C-TPAT through coordination with the international community. Supply chain security specialists will continue to be hired and trained to visit participant facilities to review security practices. CBP intends to build on cooperative Smart Border agreements and pursue criminal enterprises involved in internal conspiracies at the POEs.

# Performance Goals and Results

| Performance Measure—Compliance rate for C-TPAT members with established C-TPAT security guidelines. |  |                |                |                |                |                 |
|---|--|----------------|----------------|----------------|----------------|-----------------|
| Description:  | A summary of the overall compliance rate achieved for all validations performed during the fiscal year. After acceptance into the C-TPAT program, all C-TPAT members must undergo a periodic validation to verify compliance with industry-specific CBP security standards and required security practices.  |                |                |                |                |                 |
| Key Highlights  |  |                |                |                |                |                 |
| Fiscal Year:  | FY 2004 Actual   | FY 2005 Actual | FY 2006 Actual | FY 2007 Actual | FY 2008 Target | FY 2008 Results |
| Target/Actual Indicator:  | N/A  | 97%            | 98%            | 98%            | 95.5%          | 99.9%           |
| Explanation of FY 2008 Results:   | <b>Target Met</b> —In FY 2008, CBP has continued to increase the number of validations performed on C-TPAT members. A validation is a thorough review by CBP that includes visits to all manufacturing and warehouse facilities by C-TPAT Specialists to verify that a C-TPAT member is in fact implementing the supply-chain security safeguards agreed to and required by C-TPAT. Over eighty percent of all C-TPAT members have been validated by CBP, with a total of 7,631 validations by the end of FY 2008. A high compliance rate indicates that a majority of C-TPAT members are committed to maintaining supply chain security standards. It indicates that they have the required level of supply chain security measures in place and are maintaining them on an on-going basis. |                |                |                |                |                 |
| Data Source: C-TPAT Validation Reports.   |  |                |                |                |                |                 |

## Strategic Goal 5. Protecting America and Its Citizens

CBP protects the American people and the national economy by prohibiting the introduction of contraband such as illegal drugs, counterfeit goods, and other harmful materials and organisms into the United States. CBP continues to develop technology to enhance targeting of high-risk cargo and individuals attempting entry into the country.

**Performance Objective**—Reduce the importation of all prohibited or illegal drugs and other materials that are harmful to the public or may damage the American economy.

CBP monitors connections between illegal drug trafficking and terrorism, and coordinates efforts to sever such connections while interdicting illegal narcotics. Canine resources are used to detect illegal aliens, explosives, and chemicals, and to interdict drugs and agricultural commodities. CBP works closely with other Government agencies, industry, and stakeholders to measure agricultural risk and develop mitigation strategies to prevent harmful organisms from entering the United States intentionally or by accident.



**CBP Agricultural Specialists inspecting produce for pests and diseases.**

## Performance Goals and Results

|   |   |                |                |                |                |                 |
|---|---|----------------|----------------|----------------|----------------|-----------------|
| <b>Performance Measure</b> —International air passengers in compliance with agriculture quarantine regulations (percent compliant). |   |                |                |                |                |                 |
| Description:  | The degree of compliance with agriculture quarantine regulations and other mandatory agricultural product restrictions. CBP randomly samples international air passengers for compliance with all U.S. Department of Agriculture (USDA) laws, rules and regulations using USDA guidance on sampling procedures.   |                |                |                |                |                 |
| Key Highlights  |   |                |                |                |                |                 |
| Fiscal Year:  | FY 2004 Actual  | FY 2005 Actual | FY 2006 Actual | FY 2007 Actual | FY 2008 Target | FY 2008 Results |
| Target/Actual Indicator:  | 97.0%   | 95.8%          | 95.5%          | 94.2%          | 97%            | 95.8%           |
| Explanation of FY 2008 Results:   | <b>Target Not Met</b> —The air passenger agricultural compliance rate is determined by the rate of occurrence of all agriculture-related violations of arriving travelers. The large majority of these violations are minor infractions. Although still not reaching the target set for FY 2008, this measure showed a significant improvement over the rate observed for FY 2007. The improvement may in part reflect the expanded traveler education and outreach efforts undertaken in FY 2008 concurrent with the implementation of the WHTI.   |                |                |                |                |                 |
| Recommended Action:   | CBP is continuing to take additional actions to further educate and inform the traveling public of all regulatory and procedural requirements. This includes expanded explanations of travel requirements on the CBP.gov web site, such as “Know Before You Go” and the WHTI Requirements page. CBP is working collaboratively with the carriers and airport authorities to improve instruction, signage, and on-board pre-processing. CBP is also working with industry to improve the traveler’s experience through the Rice-Chertoff Initiative, which will facilitate entry of air travelers into the US and include new approaches for improving traveler processing and educating incoming travelers on US laws, rules, and regulations. These efforts will improve passenger compliance in future years. |                |                |                |                |                 |
| Data Source: USDA Work Accomplishment Data System (WADS) Agricultural Quarantine Inspection monitoring activities.                  |   |                |                |                |                |                 |

**Performance Objective**—Provide support to protect events and key assets of national interest and mitigate the risks of terrorism and other threats to critical government operations.

CBP will continue to coordinate with other law enforcement partners to provide protection from airborne threats and to provide air and marine security for national efforts.

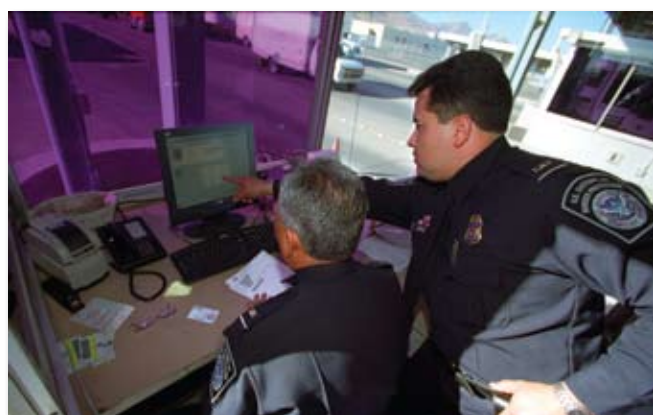


# Performance Goals and Results

|  |   |                   |                   |                   |                   |                    |
|--|---|-------------------|-------------------|-------------------|-------------------|--------------------|
| <b>Performance Measure</b> —Percent of air support launches accomplished to support border ground agents to secure the border. |   |                   |                   |                   |                   |                    |
| Description:   | The percentage of all requests made for air support to which CBP A&M was able to respond. The capability to launch an aircraft when a request is made for aerial support is a primary and important measure for CBP A&M. In FY 2006, all air assets of CBP were merged into CBP A&M creating the largest law enforcement air force in the world with enhanced mission support to CBP A&M’s primary customer, the Office of Border Patrol. |                   |                   |                   |                   |                    |
| <b>Key Highlights</b>  |   |                   |                   |                   |                   |                    |
| Fiscal Year:   | FY 2004<br>Actual   | FY 2005<br>Actual | FY 2006<br>Actual | FY 2007<br>Actual | FY 2008<br>Target | FY 2008<br>Results |
| Target/Actual Indicator:   | N/A   | N/A               | N/A               | 98%               | 95%               | 98.0%              |
| Explanation of FY 2008 Results:  | <b>Target Met</b> —Ninety-eight percent of the requests for aerial support were met to provide assistance in securing the border. This level of support exceeds the industry standard launch rate of 95 percent. This level of support was achieved through realigning resources to highest needs, aggressive maintenance, and effective scheduling.  |                   |                   |                   |                   |                    |
| <b>Data Source:</b> Air and Marine Operations Reporting System (AMOR).   |   |                   |                   |                   |                   |                    |

## Strategic Goal 6. Modernizing and Managing

To achieve the other five strategic goals, CBP must put forth a continuous effort to enhance and modernize its information technology systems and technical support services. Strategic Goal 6 will ensure that CBP can assist its customers and stakeholders in obtaining and managing the financial resources and assets needed to accomplish the mission. To provide customers and stakeholders with accurate, timely, and integrated data, CBP intends to maintain and improve financial and administrative systems, along with increasing the use of e-commerce.



**Global systems integration and information warehousing allows CBP to continue to modernize its IT systems.**

**Performance Objective**—Maintain a reliable, stable, and secure IT infrastructure and an array of technical support services, including laboratory and scientific services, tactical radio communication, field equipment maintenance/support, and round-the-clock customer assistance.

CBP continues to support its antiterrorism mission and its widely dispersed field workforce by deploying a modern, robust, secure technology infrastructure that provides global systems integration and information warehousing for a completely automated trade, border security, and mission support environment. CBP intends to build and maintain a unified tactical communications capability that supports the needs of the agency and is coordinated within DHS.

## Performance Goals and Results

|  |   |                   |                   |                   |                   |                    |
|--|---|-------------------|-------------------|-------------------|-------------------|--------------------|
| <b>Performance Measure</b> —Percent of time the Traveler Enforcement Communication System (TECS) is available to end users.              |   |                   |                   |                   |                   |                    |
| Description:   | A quantification, as a percentage, of the end-user experience in terms of TECS service availability. TECS is a CBP mission critical law enforcement application system designed to identify individuals and businesses suspected of or involved in violation of federal law. TECS is also a communications system permitting message transmittal between DHS law enforcement offices and other national, state, and local law enforcement agencies. TECS provides access to the FBI’s National Crime Information Center (NCIC) and the National Law Enforcement Telecommunication Systems (NLETS) with the capability of communicating directly with state and local enforcement agencies. NLETS provides direct access to state motor vehicle departments. |                   |                   |                   |                   |                    |
| <b>Key Highlights</b>  |   |                   |                   |                   |                   |                    |
| Fiscal Year:   | FY 2004<br>Actual   | FY 2005<br>Actual | FY 2006<br>Actual | FY 2007<br>Actual | FY 2008<br>Target | FY 2008<br>Results |
| Target/Actual Indicator:   | N/A   | 96.2%             | 98%               | 98.7%             | 97.5%             | 99.9%              |
| Explanation of FY 2008 Results:  | <b>Target Met</b> —The TECS Prime Project and weekly TECS Passenger Systems Program Office (PSPO) Availability Meeting have increased systems availability. TECS Prime provides improved database up time by mirroring and synchronizing the database during maintenance time frames. Weekly TECS/PSPO availability meetings are held to discuss any and all issues and processes to improve systems availability.  |                   |                   |                   |                   |                    |
| <b>Data Source:</b> Topaz, a Web-based application that enables users to track and analyze availability and system performance problems. |   |                   |                   |                   |                   |                    |

# Management Assurances

## Overview

To comply with the provisions of the Federal Managers' Financial Integrity Act of 1982 (FMFIA); the DHS Financial Accountability Act of 2004; the Reports Consolidation Act of 2000; the Federal Financial Management Improvement Act of 1996 (FFMIA); the Federal Information Security Management Act of 2002 (FISMA); and the Office of Management and Budget (OMB) Circular A-123, "Management's Responsibility for Internal Control," revised December 2004, the Commissioner of CBP must provide annual assurance statements to DHS regarding CBP's management and financial system controls, internal controls over financial reporting, and performance data reliability. Any material weaknesses or deficiencies are reported in the statements. Information for these statements is derived from GAO and DHS OIG reviews, independent audits, and self-assessments provided by CBP management.

## Federal Managers' Financial Integrity Act

In accordance with FMFIA and OMB Circular A-123, CBP has evaluated its management controls and financial management systems for the fiscal year ending September 30, 2008. Through its annual self-assessment process and GAO and OIG reviews for FY 2008, we are reporting 4 material weaknesses and 3 instances of nonconformance. Because of corrective actions implemented by CBP, the material weakness in Financial Systems Security that was reported in previous years was reduced to a significant deficiency for FY 2008 reporting.

## Custodial Revenue and Drawback Controls

Drawback involves the reimbursement of duties paid by an importer on materials or merchandise imported into the United States and subsequently exported. In 1993, deficiencies were reported in the controls to prevent excessive drawback claims. The ACS has inherent limitations in detecting and preventing excessive drawback claims; therefore, CBP relies on a risk-based approach to review drawback claims. Weaknesses relating to ACS include: deficiencies in controls to detect excessive drawback claims, deficiencies over the accumulation of claims against a drawback bond, limitation in the review of prior related drawback claims, and deficiencies in ACS selectivity for underlying consumption entries. CBP continues to work with ACE developers to design and implement an automated system to address these weaknesses and provide improved automated controls. In addition, strengthening drawback controls depends on legislation to simplify the drawback process and to revise the document retention period for documents that support drawback claims. CBP can recommend a change to the recordkeeping requirements; however, support from the Trade community is crucial to proposing a statutory change.

## Laptop Computer Security

During FY 2006, the DHS OIG noted weaknesses related to CBP's inventory control, inventory review, and training of local property officers regarding laptop computer security. In addition, a security issue related to controls ensuring that laptop computers are cleared and sanitized before reissue or disposal was identified. New controls and training were implemented in FY 2007. Although significant progress has been made, additional controls and monitoring are still required given the number of laptops at CBP.

### **Secure Border Initiative Program Executive Office—Implementation of Management Controls**

The Secure Border Initiative Program Executive Office (SBI PEO) was established in FY 2007. SBI PEO is currently implementing management controls and is not in a position to state with reasonable assurance that adequate controls are in place. CBP anticipates that controls will be in place to provide full assurances for FY 2009.

### **US VISIT Technical Security Issues**

In 2007, GAO performed a Technical Security Assessment of US VISIT and determined that CBP needed to immediately address significant security weaknesses in systems supporting the US VISIT program. CBP has implemented 49 of 82 audit recommendations. Corrective actions are in process for all open recommendations, with completion expected by the end of FY 2009.

### **Information Technology General and Application Controls**

The DHS OIG notes that there continues to be IT general and application control weaknesses at CBP. These weaknesses were identified in a set of 35 Notices of Finding and Recommendation (NFRs) in the IT area resulting from the FY 2008 Financial Statements Audit. Collectively, these weaknesses limit CBP's ability to ensure that critical financial and operational data are maintained in such a manner to ensure confidentiality, integrity, and availability. CBP has completed corrective actions for 19 of the previous year's NFRs. All corrective actions for the identified NFRs are expected to be completed by December 30, 2009.

### **Core Financial Systems**

This material weakness was first reported in 1993 when it was noted that agency core financial systems were not integrated and did not provide certain financial information for managing operations. The implementation of Systems, Applications, and Products (SAP) Release 3 in 2004 addressed a number of the issues under this weakness. The remaining open issue relates to the accounts receivable functionality that will be provided by ACE when it becomes the system of record for trade revenue activity and reporting. This functionality is scheduled for deployment in 2011.

### **Business Continuity**

For FY 2008, CBP reported inadequate resources for business continuity testing of Chief Financial Officer designated financial systems. Continuity plans are tested to ensure that, in the event of a true emergency, resources are in place and individuals are trained to quickly and effectively continue business processes at an alternate location in the event that the CBP Data Center is made unavailable. However, during a scheduled test, CBP found that it was not possible to bring all systems online as required because hardware was not available at the recovery facility to fully and properly perform the continuity testing. CBP is currently studying options for correcting this weakness.

## DHS Financial Accountability Act

The DHS Financial Accountability Act requires an assertion of internal controls over financial reporting. For FY 2008, the scope of CBP's assessment of internal controls over financial reporting included performing tests of operational effectiveness throughout FY 2008 over the following financial management processes.

- Budgetary Resources Management
- Payment Management

CBP's assessment of internal control over financial reporting also included performing tests of design over the following financial management processes:

- Human Resource Management and Payroll
- Property Management
- Revenue Management
- Receivables Management
- Information Technology General Controls

Based on the scope of this assessment, CBP's Internal Control Assurance Statement provides reasonable assurance that internal controls over financial reporting were designed and operating effectively and no material weaknesses were found.

## Federal Financial Management Improvement Act

FFMIA instructs agencies to maintain an integrated financial management system that complies with Federal system requirements, Federal Accounting Standards Advisory Board standards, and the U.S. Standard General Ledger at the transaction level. Although CBP has made significant improvements toward compliance with the implementation of SAP financial software, it cannot claim full compliance because of the deficiencies previously discussed.

## Federal Information Security Management Act

FISMA requires agencies to conduct an annual self-assessment review of their IT security programs and to develop and implement corrective actions for identified security weaknesses and vulnerabilities. CBP has completed a comprehensive self-assessment for FY 2008 and can state with reasonable assurance that the IT security controls are in compliance with FISMA, with the exception of the material weakness previously discussed.



# Systems and Controls

## Overview

**Data Integrity:** CBP is dedicated to providing clear, concise, relevant, and reliable data for managerial decision making and program management. CBP strives to ensure that the data are both quantifiable and verifiable and provided in a timely manner. In place are internal management controls, including ongoing data reviews, annual self-inspections, audit trails, restricted access to sensitive data, and separation of duties, which are designed to safeguard the integrity and quality of CBP's data resources.

**Data Systems and Controls:** Performance data for the planned performance measures are generated by automated management information and workload measurement systems and reports as a byproduct of day-to-day operations. All levels of management routinely monitor the data systems and controls. CBP management has reviewed the performance measurement data for FY 2008 and has determined, with reasonable assurance, that the data are complete, accurate, and reliable.

**Audit of the FY 2008 CBP Consolidated Financial Statements:** As directed by DHS to assist the Department in complying with the Chief Financial Officer's Act of 1990, DHS's independent auditors, KPMG LLP, audited CBP's consolidated financial statements (Consolidated Balance Sheet, Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, Combined Statement of Budgetary Resources, and Consolidated Statement of Custodial Activity), hereinafter referred to as the "financial statements." The objective of the audit was to determine whether the financial statements fairly present the financial position of CBP. Audit reviews evaluate assets, liabilities, net position, net costs of major CBP programs, availability of budgetary resources, finance activity, budgetary spending, and revenue from collections and refunds. An audit consists of examining, through various sampling methods, evidence supporting the amounts and disclosures in the financial statements. The Independent Auditor's Report can be found on page 135.

## Self-Inspection Program

The SIP was developed to emphasize managerial accountability and provide a mechanism for management oversight of CBP programs and processes. SIP, along with other methodologies, helps CBP meet Federal management control requirements established by FMFIA and OMB Circular A-123, revised. SIP provides a method by which CBP headquarters and field managers conduct internal assessments of their operations and report on those results by completing self-inspection worksheets developed by national program managers. In completing and certifying the results of their self-inspections, managers assess whether their area of responsibility is

- Properly implementing established programs, policies, procedures, and strategies that support mission/program accomplishment
- Ensuring the security of funds, property, and other agency resources
- Complying with Federal laws and regulations

For the current reporting cycle, the 15 offices of CBP completed more than 14,450 self-inspection worksheets. These worksheets require participants to answer questions resulting from testing about program administration and operation.

## Systems and Controls

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Results of the assessments are entered into the Self-Inspection Reporting System (SIRS). In addition, SIRS requires the completion of an audit trail section that documents the information reviewed before the completion of the worksheet , as well as a separate addendum giving a detailed description of the cause of any deficiencies and the corrective actions taken. Managers are responsible for implementing corrective action plans to resolve identified deficiencies.

Every year, after the end of the SIP reporting cycle, the Management Inspection Division (MID) prepares a summary analysis report that identifies significant issues to help CBP management determine which administrative or operational areas require attention. Issues identified through this program may become the focus of MID internal inspection and review activities.

Analysis of the self-inspection data allows executive managers and national program managers to gauge the level of compliance with critical program management controls, identify programmatic issues that require national attention, and address issues before they cause administrative burden or otherwise have a negative impact on the mission of CBP.

# Financial Management

## Overview

CBP strives to be a leader in financial management by providing high-quality, cost-efficient services through customer involvement and modern, integrated financial systems. Its goal is to continuously develop and implement more effective and efficient methods to obtain, manage, and deliver the financial resources, capital assets, and financial services required to meet or exceed the needs of customers and stakeholders. Because CBP is also a revenue-collection agency, it is imperative that it accurately identify amounts owed to CBP and efficiently and effectively collect, report, and account for revenue.

Providing top-quality financial management services includes translating workloads and requirements into budget requests for needed resources; allocating and distributing funds after resources are made available; acquiring and distributing goods and services used to accomplish the CBP mission; managing and paying for those goods and services; and reporting on the costs and use of personnel, goods, and services.

For FY 2008, SAP financial software continues to be used by CBP. SAP is a modular, PC-based, integrated financial management and reporting system that provides full materials management, budgeting, and general and subsidiary ledger capabilities. The impact of SAP is far-reaching, as it has put into place new automated, integrated processes for core finance and accounting, budget execution, and reporting.

## President's Management Agenda

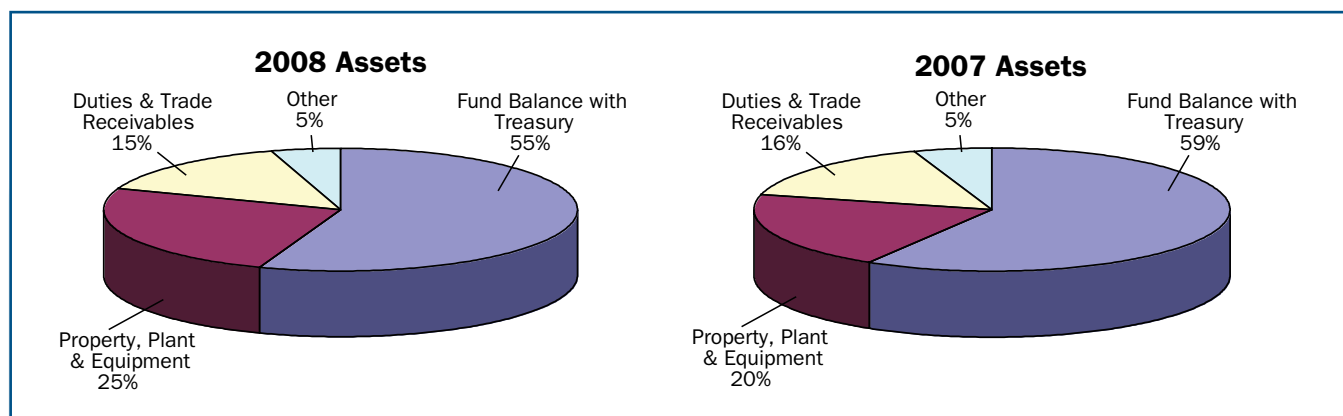
In 2001, the PMA was implemented as a management reform initiative established to identify deficiencies and improve performance within the Federal Government. For FY 2008, the PMA focused on six key management initiatives across the Federal Government: (1) Strategic Management of Human Capital, (2) Competitive Sourcing, (3) Improved Financial Performance, (4) Expanded Electronic Government, (5) Budget and Performance Integration, and (6) Asset Management (Real Property). Federal executive agencies are tracked, via a "scorecard," on how well the departments and major agencies are executing the six government-wide management initiatives. In ongoing compliance and support of the PMA, CBP continues to efficiently and economically develop, implement, and track activities that improve its accomplishments and scorecards in the six areas of management weakness.

## Overview of the Financial Statements

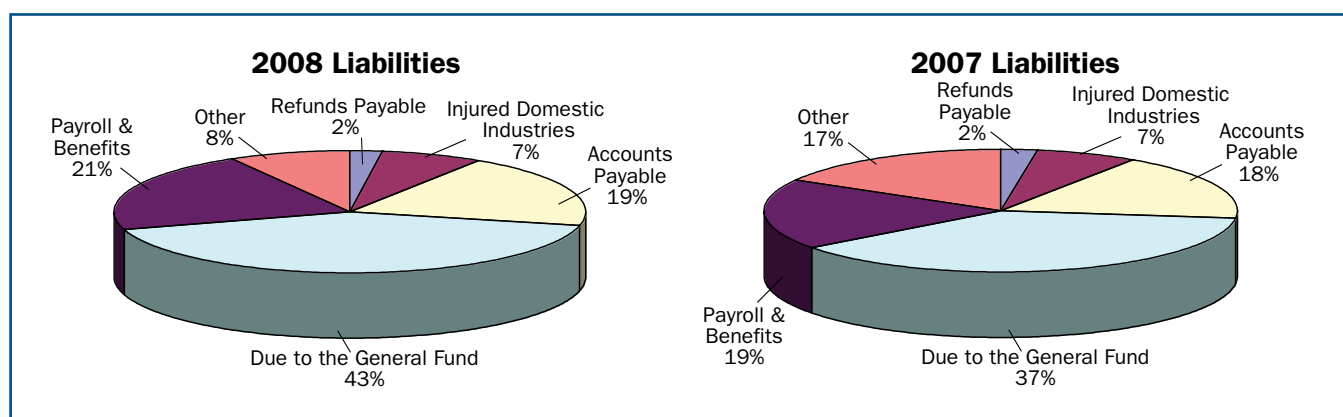
The financial statements and footnotes appear in the "Financial Section" of this report on pages 73 through 133. The financial statements have been audited by our independent auditor, KPMG LLP, and have been found to have no material misstatements as evidenced by the audit report.

## Consolidated Balance Sheet

The Consolidated Balance Sheet presents the property owned by CBP (assets), amounts owed by CBP (liabilities), and the amounts of the difference (net position). As of September 30, 2008, total assets were \$14.1 billion, a 14 percent increase from FY 2007, which was primarily due to the construction of tactical infrastructure projects.

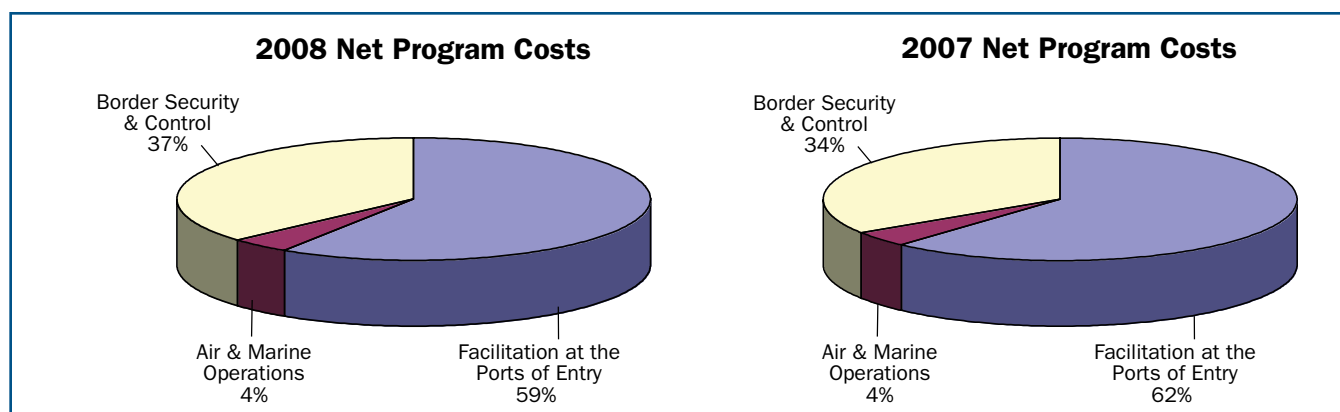


As of September 30, 2008, total liabilities were \$5.7 billion, an increase of 4 percent over FY 2007, which was primarily due to an increase in our accrued payroll and benefits, accounts payable, and due to the Treasury General Fund, which is also offset by a decrease in liabilities related to Antidumping/Countervailing duties. The charts below present a comparison of the major categories of assets and liabilities as a percentage of the totals for FY 2008 and FY 2007.



## Consolidated Statement of Net Cost

The Consolidated Statement of Net Cost presents the net cost of the major CBP programs as they relate to the goals of the 2005–2010 Strategic Plan. The gross cost less any offsetting revenue for each program equals net cost of operations. Net cost of operations was \$9.6 billion.



## Consolidated Statement of Changes in Net Position

The Consolidated Statement of Changes in Net Position represents those accounting transactions that caused the net position of the balance sheet to change from the beginning to the end of the reporting period. CBP's net cost of operations serves to reduce the net position. Appropriations used totaled \$7.3 billion, representing 69 percent of CBP's total financing sources. CBP collected and retained \$2.7 billion of non-exchange revenue, amounting to 25 percent, which was used to fund CBP operations.

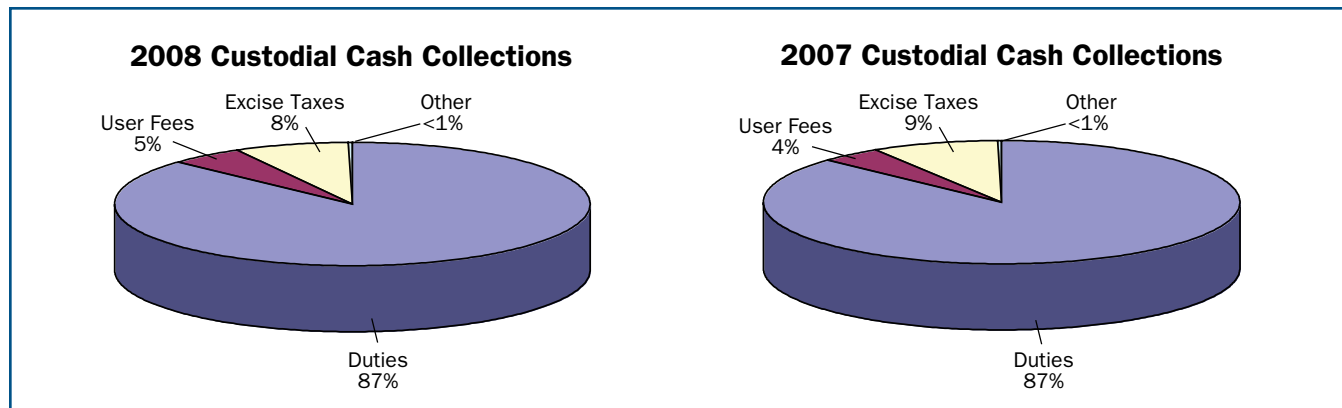
## Combined Statement of Budgetary Resources

The Combined Statement of Budgetary Resources illustrates how budgetary resources were made available, as well as their status at the end of FY 2008. CBP had \$17.2 billion in budgetary resources, of which \$2.5 billion were unobligated. CBP incurred obligations of \$14.6 billion and recorded \$12.8 billion in gross outlays by the end of the fiscal year.



## Consolidated Statement of Custodial Activity

The Consolidated Statement of Custodial Activity presents non-entity (financial activity conducted by CBP on behalf of others) revenue and refunds using a modified cash basis. This method reports revenue from cash collections separately from receivable accruals, and cash disbursements are reported separately from payable accruals. The custodial revenue, using the modified cash basis, for FY 2008 was \$31.5 billion.



## Limitations of the Financial Statements

The principal financial statements have been prepared to report the financial position and results of the operations of CBP, pursuant to the requirements of 31 U.S.C. 3515(b). While the financial statements have been prepared from the books and records of CBP in accordance with Generally Accepted Accounting Principles for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

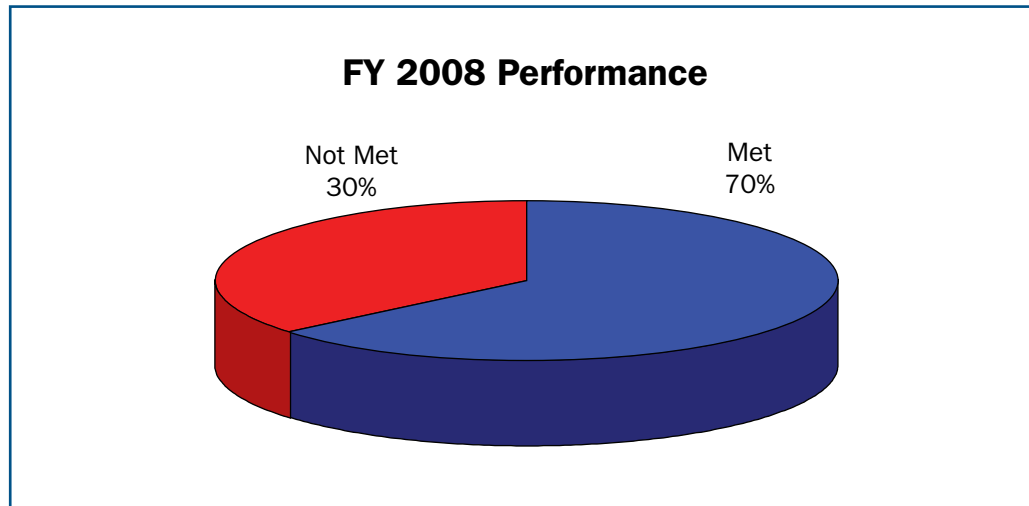
The financial statements should be read with the realization that they are a component of the U.S. Government, a sovereign entity. Liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation by Congress, and payment of liabilities, other than for contracts, can be abrogated by the sovereign entity.



# Performance Section

# Performance Summary

The chart below highlights CBP's success in achieving FY 2008 performance goals. The performance measures are established as an integral part of the CBP Strategic Plan and the DHS FYHSP. The measurement data are collected through various systems and methods and then entered into the FYHSP system for tracking and compiling for management decision-making and year-end reporting. Security, threat, and risk analyses often necessitate changes in the agency's focus. CBP performance measures continue to evolve to better reflect operational functions and alignment with critical missions.



For FY 2008, CBP has 23 reportable performance measures that support the Strategic Plan. Of the 23 performance measures, 16 were met and 7 were not met. The performance data presented in this report are in accordance with the guidance provided by OMB. The data integrity discussion in the “Systems and Controls” section of the “Management’s Discussion and Analysis” (page 55) describes CBP’s commitment to providing quality and timely performance information to increase its value to CBP management and interested parties. CBP managers routinely use these data to improve the quality of program management and demonstrate accountability of program results.

## Individual Performance Measure Results

This section describes CBP's FY 2008 results for each FYHSP performance measure by the strategic goal and performance objective they support. Although some of the performance measures may relate to more than one performance objective, each performance measure was aligned under the single objective considered most relevant or meaningful. Discussions of the key performance measures can be found in the "Management's Discussion and Analysis" section under "Performance Goals and Results," beginning on page 40.

### Strategic Goal #1—Preventing Terrorism at the Ports of Entry

**Performance Objective**—Improve identification and targeting of potential terrorists and terrorist weapons, through risk management and automated advances and enhanced information.

**Performance Measure**—Number of foreign cargo examinations resolved in cooperation with the Container Security Initiative (CSI).

|                       |  |
|-----------------------|--|
| <b>Key Highlights</b> | <b>Target Not Met</b> —See page 41 for results and detailed discussion |
|-----------------------|--|

**Performance Objective**—Push the nation's zone of security outward beyond its physical borders through partnerships and extended border initiatives to deter and combat the threat of terrorism.

**Performance Measure**—Percent of worldwide U.S. destined containers processed through CSI ports.

|                       |  |
|-----------------------|--|
| <b>Key Highlights</b> | <b>Target Met</b> —See page 42 for results and detailed discussion |
|-----------------------|--|

### Strategic Goal #2—Preventing Terrorism Between Ports of Entry

**Performance Objective**—Maximize border security along the northern, southern, and coastal borders through an appropriate balance of personnel, equipment, technology, communications capabilities, and infrastructure.

**Performance Measure**—Border miles under effective control (including certain coastal sectors).

|                       |  |
|-----------------------|--|
| <b>Key Highlights</b> | <b>Target Met</b> —See page 43 for results and detailed discussion |
|-----------------------|--|

# Performance Summary

| Performance Measure—Percent of apprehensions at Border Patrol checkpoints.   |  |                   |                   |                   |                   |                    |
|--|--|-------------------|-------------------|-------------------|-------------------|--------------------|
| Description:   | An examination of one checkpoint activity, apprehensions, compared to the number of Border Patrol apprehensions nationwide. Checkpoints are temporary and permanent facilities used by the Border Patrol to monitor traffic on routes of egress from border areas and are an integral part of the Border Patrol’s defense-in-depth strategy. Activities that occur at checkpoints serve as a measure not only of checkpoint operational effectiveness, but as a barometer of the effectiveness of Border Patrol’s overall national border enforcement strategy to deny successful illegal entries into the U.S. This comparison measures checkpoint effectiveness in terms of apprehensions and provides insights into the overall effectiveness of the Border Patrol’s national strategy. |                   |                   |                   |                   |                    |
| Key Highlights   |  |                   |                   |                   |                   |                    |
| Fiscal Year:   | FY 2004<br>Actual  | FY 2005<br>Actual | FY 2006<br>Actual | FY 2007<br>Actual | FY 2008<br>Target | FY 2008<br>Results |
| Target/Actual Indicator:   | N/A  | N/A               | 5.9%              | 5%                | 3%-8%             | 2%                 |
| Explanation of FY 2008 Results:  | <b>Target Not Met</b> —Apprehensions at the checkpoints fell slightly under the FY 2008 target. Overall apprehensions by the Border Patrol decreased in FY 2008 due to the additional new agents, tactical infrastructure and effective partnerships with other law enforcement agencies. Concurrently, the apprehensions at the Border Patrol checkpoints decreased and remain proportionate to the overall apprehensions nationwide as a critical component of the 3 tier enforcement strategy.  |                   |                   |                   |                   |                    |
| Recommended Action:  | As Border Patrol resources are increased and more border miles are brought under effective control, it is anticipated that overall apprehensions will decrease. FY 2009 targets will be adjusted appropriately.  |                   |                   |                   |                   |                    |
| <b>Data Source:</b> Summary records from Border Patrol’s Checkpoint Activity Report (CAR) and data maintained in two databases: ENFORCE and BPETS. |  |                   |                   |                   |                   |                    |

| <b>Performance Measure</b> —Total number of cumulative miles of permanent tactical infrastructure constructed. |  |
|--|--|
| <b>Key Highlights</b>  | <b>Target Not Met</b> —See page 44 for results and detailed discussion |



## Performance Summary

**Performance Measure**—Percent of narcotic seizures at Border Patrol checkpoints compared to Border Patrol seizures nationwide.

**Description:** The percentage of narcotic seizures at Border Patrol checkpoints compared to the percentage of narcotic seizures nationwide. The Border Patrol checkpoint operations are an integral part of the Border Patrol's defense-in-depth strategy. As such, these activities serve as measures for both the checkpoint operational effectiveness and the value of the Border Patrol's overall national border enforcement strategy to deny successful illegal entries into the U.S.

### Key Highlights

| Fiscal Year:             | FY 2004<br>Actual | FY 2005<br>Actual | FY 2006<br>Actual | FY 2007<br>Actual | FY 2008<br>Target | FY 2008<br>Results |
|--------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|
| Target/Actual Indicator: | N/A               | N/A               | N/A               | 34%               | 25%-40%           | 35%                |

**Explanation of FY 2008 Results:** **Target Met**—The overall narcotic seizures by OBP at checkpoints decreased proportionally with overall seizures by OBP nationwide as a result of an increased presence by OBP resulting from additional agents and tactical infrastructure.

**Data Source:** The number of narcotic seizure events are obtained through CAR. The number of nationwide narcotic seizure events are obtained through ENFORCE and BPETS.

**Performance Measure**—Percent of traffic checkpoint cases referred for prosecution to the U.S. Attorney's Office.

**Description:** The percentage of border related cases brought by the Border Patrol and originating from traffic checkpoint operations that are referred to one of the 92 U.S. Attorneys located throughout the U.S., Puerto Rico, and the Virgin Islands for prosecution compared to the total number of apprehensions at traffic checkpoints. This measure will depict the effectiveness of Border Patrol checkpoint operations in identifying and prosecuting dangerous criminals thus enhancing overall public safety. All apprehensions by OBP are considered arrests (administrative or criminal). The number of cases tracked in this measure represents criminal arrests only.

### Key Highlights

| Fiscal Year:             | FY 2004<br>Actual | FY 2005<br>Actual | FY 2006<br>Actual | FY 2007<br>Actual | FY 2008<br>Target | FY 2008<br>Results |
|--------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------------|
| Target/Actual Indicator: | N/A               | N/A               | N/A               | 13%               | 8%-15%            | 18%                |

**Explanation of FY 2008 Results:** **Target Met**—Checkpoints serve as a component of the successful defense in depth strategy to deny major routes of egress to smugglers intent on delivering people and illegal contraband into the U.S. Criminal cases referred for prosecution support the strategic goals of preventing terrorism, achieving effective control of the border and reducing crime in border communities. The number of cases referred to prosecution related to checkpoint enforcement activity is compared to all apprehension activity at Border Patrol Checkpoints to determine the percentage of apprehensions referred for prosecution as criminal cases. Data are analyzed for compliance of established data protocols and accuracy and show the effectiveness of the Border Patrol layered enforcement strategy. Border Patrol exceeded its target for the percentage of cases referred for prosecution at checkpoints and increased its effectiveness in identifying, documenting and providing necessary evidence for prosecuting dangerous criminals.

**Data Source:** Border Patrol's Checkpoint Activity Report (CAR).

# Performance Summary

| Performance Measure—Percent of network availability  |  |                   |                   |                   |                   |                    |
|--|--|-------------------|-------------------|-------------------|-------------------|--------------------|
| Description:   | The percentage of network availability to users. The CBP network provides the basis for linking all IT systems for communications and access to mission critical systems. High levels of system availability are needed to accomplish CBP’s mission. |                   |                   |                   |                   |                    |
| Key Highlights   |  |                   |                   |                   |                   |                    |
| Fiscal Year:   | FY 2004<br>Actual  | FY 2005<br>Actual | FY 2006<br>Actual | FY 2007<br>Actual | FY 2008<br>Target | FY 2008<br>Results |
| Target/Actual Indicator:   | N/A  | N/A               | 99.9%             | 99.4%             | 98%               | 99.7%              |
| Explanation of FY 2008 Results:  | Target Met—CBP’s FY 2008 network availability exceeded posted targets due to continued organizational efforts to minimize unscheduled outages and reduce unscheduled downtime for CBP’s critical national security mission.                          |                   |                   |                   |                   |                    |
| Data Source: Simple Network Management Protocol (SNMP) data source is directly retrieved from managed device every five minutes. |  |                   |                   |                   |                   |                    |

**Performance Objective**—Expand specialized teams and rapid-response capabilities to enhance control of the borders, with expansion to problematic areas as identified through continuing threat assessments.

| <b>Performance Measure</b> —Number of Border Patrol Agents trained in rescue and emergency medical procedures. |  |                   |                   |                   |                   |                    |
|--|--|-------------------|-------------------|-------------------|-------------------|--------------------|
| Description:   | The number of agents trained and certified in rescue and emergency medical procedures. One of the Border Patrol’s Border Safety Initiative (BSI) objectives is to increase the number of agents trained and certified in rescue and emergency medical procedures at the field agent level to improve the Border Patrol’s capabilities to prevent and respond to humanitarian emergencies to create a safer and more secure border region.  |                   |                   |                   |                   |                    |
| Key Highlights   |  |                   |                   |                   |                   |                    |
| Fiscal Year:   | FY 2004<br>Actual  | FY 2005<br>Actual | FY 2006<br>Actual | FY 2007<br>Actual | FY 2008<br>Target | FY 2008<br>Results |
| Target/Actual Indicator:   | N/A  | N/A               | N/A               | 796               | 690               | 1381               |
| Explanation of FY 2008 Results:  | <b>Target Met</b> —The total number of first responders trained in FY 2008 exceeded the target by 691 due to an extensive training schedule in the 3rd and 4th quarters to accommodate the accelerated hiring initiatives for Border Patrol agents. This accelerated hiring initiative increased the number of interns returning from the academy to assigned stations for post academy training which includes first responder training. This number is expected to decrease as agent hiring goals are met. |                   |                   |                   |                   |                    |
| <b>Data Source:</b> Border Patrol Enforcement Tracking System (BPETS).   |  |                   |                   |                   |                   |                    |

## Strategic Goal #3—Unifying as One Border Agency

**Performance Objective**—Establish a unified primary inspection process for passenger processing at all ports of entry into the United States and fully integrate analysis and targeting units.

| <b>Performance Measure</b> —Total number of linked electronic sources from CBP and other government agencies for targeting information. |  |
|---|--|
| <b>Key Highlights</b>   | <b>Target Met</b> —See page 45 for results and detailed discussion |

## Strategic Goal #4—Facilitating Legitimate Trade and Travel

**Performance Objective**—Modernize automated import, export, and passenger processing systems to improve risk assessment and enforcement decision-making.

|   |  |
|---|--|
| <b>Performance Measure</b> —Percent of CBP workforce using ACE functionality to manage trade information. |  |
| <b>Key Highlights</b>   | <b>Target Not Met</b> —See page 46 for results and detailed discussion |

|  |  |
|--|--|
| <b>Performance Measure</b> —Number of trade accounts with access to ACE functionality to manage trade information. |  |
| <b>Key Highlights</b>  | <b>Target Met</b> —See page 47 for results and detailed discussion |

**Performance Objective**—Utilize state-of-the-art technologies and processes to leverage resources and to conduct examinations of all potential high-risk cargo, conveyances and passengers.

|  |   |                   |                   |                   |                   |                    |
|--|---|-------------------|-------------------|-------------------|-------------------|--------------------|
| <b>Performance Measure</b> —Percent of truck and rail containers screened for contraband and concealed people. |   |                   |                   |                   |                   |                    |
| Description:   | The percentage of truck and rail containers that were screened for contraband and concealed people using NII technology. This measure shows progress towards increasing security by measuring the percent of truck and rail containers that were screened for contraband and concealed people using NII technology. NII technology consists of x-ray imaging and electromagnetic imaging equipment that is very effective at inspecting trucks, containers, and packages for shapes, density, and hidden cargo. It is very effective at identifying weapons, narcotics, smuggled humans, and concealed cargo.   |                   |                   |                   |                   |                    |
| Key Highlights   |   |                   |                   |                   |                   |                    |
| Fiscal Year:   | FY 2004<br>Actual   | FY 2005<br>Actual | FY 2006<br>Actual | FY 2007<br>Actual | FY 2008<br>Target | FY 2008<br>Results |
| Target/Actual Indicator:   | 26.6%   | 28.9%             | 32.80%            | 40%               | 42%               | 35.8%              |
| Explanation of FY 2008 Results:  | <b>Target Not Met</b> —NII examinations are conducted to perform 100% examination of all targeted high-risk containers, identified through ATS manifest reviews, to have a higher risk profile and which may pose a threat to our security. The higher the percentage of high-risk cargo screened using NII, the greater the likelihood of detecting potentially hazardous materials and preventing them from entering the US. This technology provides a more efficient and effective alternative to 100 % physical inspection of all targeted high-risk containers. ATS targeting rules underwent refinement in FY 2008, resulting in an overall reduction in the number of mandatory examinations required. This “mandatory” decrease was not compensated for by a corresponding increase in discretionary (CBP Officer selected) exams, resulting in an overall decrease in the total number of NII exams completed for trucks. All major rail crossings now perform nearly 100% examinations of rail containers. |                   |                   |                   |                   |                    |
| Recommended Action:  | CBP will work to increase the number of discretionary truck examinations to offset the decrease in mandatory exams that resulted from the improvements in the ATS targeting rules. Discretionary exams are conducted based on CBP Officer assessment and targeting.   |                   |                   |                   |                   |                    |
| Data Source: Operations Management Reports (OMR) Data Warehouse.   |   |                   |                   |                   |                   |                    |

# Performance Summary

|   |   |                   |                   |                   |                   |                    |
|---|---|-------------------|-------------------|-------------------|-------------------|--------------------|
| <b>Performance Measure</b> —Percent of sea containers screened for contraband and concealed people. |   |                   |                   |                   |                   |                    |
| Description:  | The percentage of sea containers that were screened for contraband and concealed people using NII technology. The measure shows progress towards increasing security by measuring the percent of sea containers arriving at seaports that were screened for contraband and concealed people using NII technology. NII technology consists of x-ray imaging and electromagnetic imaging equipment that is very effective at inspecting trucks, containers, and packages for shapes, density, and hidden cargo. It is very effective at identifying weapons, narcotics, smuggled humans, and concealed cargo.   |                   |                   |                   |                   |                    |
| Key Highlights  |   |                   |                   |                   |                   |                    |
| Fiscal Year:  | FY 2004<br>Actual   | FY 2005<br>Actual | FY 2006<br>Actual | FY 2007<br>Actual | FY 2008<br>Target | FY 2008<br>Results |
| Target/Actual Indicator:  | 5.2%  | 5.6%              | 5.25%             | 4.0%              | 5.75%             | 3.6%               |
| Explanation of FY 2008 Results:   | <b>Target Not Met</b> —NII examinations are conducted to perform 100% examination of all targeted high-risk containers identified through ATS manifest reviews. These are containers that are identified to have a higher risk profile and which may pose a threat to our security. The higher the percentage of high-risk cargo screened using NII, the greater the likelihood of detecting potentially hazardous materials and preventing them from entering the United States. This technology provides a more efficient and effective alternative to 100 % physical inspection of all targeted high-risk containers. ATS targeting rules underwent refinement in FY 2008, resulting in an overall reduction in the number of mandatory examinations required. This “mandatory” decrease was not compensated for by a corresponding increase in discretionary (CBP Officer selected) exams, resulting in an overall decrease in the total number of NII exams completed. |                   |                   |                   |                   |                    |
| Recommended Action:   | CBP will work to increase the number of discretionary examinations to offset the decrease in mandatory exams that resulted from the improvements in the ATS targeting rules. Discretionary exams are conducted based on CBP Officer assessment and targeting.   |                   |                   |                   |                   |                    |
| Data Source: Operations Management Reports (OMR) Data Warehouse.                                    |   |                   |                   |                   |                   |                    |

**Performance Objective**—Promote industry and foreign government partnership programs.

|   |  |
|---|--|
| <b>Performance Measure</b> —Compliance rate for C-TPAT members with established C-TPAT security guidelines. |  |
| <b>Key Highlights</b>   | <b>Target Met</b> —See page 48 for results and detailed discussion |

## Performance Summary

**Performance Objective**—Enforce all U.S. trade, immigration, drug, consumer protection, intellectual property, and agricultural laws and regulations at the borders.

|   |   |                   |                   |                   |                   |                    |
|---|---|-------------------|-------------------|-------------------|-------------------|--------------------|
| <b>Performance Measure</b> —Air passengers compliant with laws, rules, and regulations (%).           |   |                   |                   |                   |                   |                    |
| Description:  | The compliance rate of international air passengers with all of the laws, rules, and regulations that CBP enforces at the Ports of Entry, with the exception of agriculture laws and regulations.   |                   |                   |                   |                   |                    |
| Key Highlights  |   |                   |                   |                   |                   |                    |
| Fiscal Year:  | FY 2004<br>Actual   | FY 2005<br>Actual | FY 2006<br>Actual | FY 2007<br>Actual | FY 2008<br>Target | FY 2008<br>Results |
| Target/Actual Indicator:  | 99.2%   | 99.0%             | 98.7%             | 98.7%             | 99.2%             | 99.5%              |
| Explanation of FY 2008 Results:   | <b>Target Met</b> —The air passenger compliance rate is determined by the rate of occurrence of all violations of arriving travelers. CBP rolled-out implementation of the WHTI in the air environment during FY 2007. During FY 2008, CBP screened virtually all foreign nationals arriving in the air environment against the major electronic international law enforcement databases. |                   |                   |                   |                   |                    |
| <b>Data Source:</b> Traveler Enforcement Communication System (TECS), Categories I and II violations. |   |                   |                   |                   |                   |                    |

|   |   |                   |                   |                   |                   |                    |
|---|---|-------------------|-------------------|-------------------|-------------------|--------------------|
| <b>Performance Measure</b> —Land border passengers compliant with laws, rules, and regulations (%).   |   |                   |                   |                   |                   |                    |
| Description:  | The compliance rate of land border vehicle passengers with all of the laws, rules, and regulations that CBP enforces at the Ports of Entry, with the exception of agriculture laws and regulations.   |                   |                   |                   |                   |                    |
| Key Highlights  |   |                   |                   |                   |                   |                    |
| Fiscal Year:  | FY 2004<br>Actual   | FY 2005<br>Actual | FY 2006<br>Actual | FY 2007<br>Actual | FY 2008<br>Target | FY 2008<br>Results |
| Target/Actual Indicator:  | 99.9%   | 99.9%             | 99.9%             | 99.9%             | 99.9%             | 99.9%              |
| Explanation of FY 2008 Results:   | <b>Target Met</b> —The land border vehicle passenger compliance rate is determined by the rate of occurrence of all violations of arriving travelers. The FY 2008 vehicle passenger compliance rate, maintained at the same rate as last year, is very high by historical standards largely due to an increased enforcement posture since September 11, 2001, expanded efforts at educating the traveling public on travel requirements, and continuing improvements in the use of technology at the ports of entry. This includes continuing installation of radiation portal monitors, expanded use of non-intrusive technology devices, and installation of electronic card readers. WHTI will be implemented for the land border in June 2009, substantially increasing the number of vehicle passengers screened against electronic international law enforcement databases. |                   |                   |                   |                   |                    |
| <b>Data Source:</b> Traveler Enforcement Communication System (TECS), Categories I and II violations. |   |                   |                   |                   |                   |                    |



# Performance Summary

## Strategic Goal #5—Protecting America and Its Citizens

**Performance Objective**—Reduce the importation of all prohibited or illegal drugs and other materials that are harmful to the public or may damage the American economy.

|  |  |
|--|--|
| <b>Performance Measure</b> —International air passengers in compliance with agricultural quarantine regulations (percent compliant). |  |
| <b>Key Highlights</b>  | <b>Target Not Met</b> —See page 49 for results and detailed discussion |

|   |  |                   |                   |                   |                   |                    |
|---|--|-------------------|-------------------|-------------------|-------------------|--------------------|
| <b>Performance Measure</b> —Border vehicle passengers in compliance with agricultural quarantine regulations (percent compliant). |  |                   |                   |                   |                   |                    |
| Description:  | The degree of compliance with U.S. Department of Agriculture (USDA) agricultural quarantine regulations and other mandatory agricultural product restrictions. CBP randomly samples border vehicle passengers for compliance with all USDA laws, rules and regulations using USDA guidance on sampling procedures.   |                   |                   |                   |                   |                    |
| Key Highlights  |  |                   |                   |                   |                   |                    |
| Fiscal Year:  | FY 2004<br>Actual  | FY 2005<br>Actual | FY 2006<br>Actual | FY 2007<br>Actual | FY 2008<br>Target | FY 2008<br>Results |
| Target/Actual Indicator:  | 96.0%  | 93.7%             | 92.9%             | 95.7%             | 94.6%             | 97.7%              |
| Explanation of FY 2008 Results:   | <b>Target Met</b> —The border vehicle agricultural compliance rate is determined by the rate of occurrence of all agriculture-related violations of arriving travelers. CBP has shown considerable success over the past two years in exceeding the historical target rate of 95% previously maintained by the USDA. CBP has been moving aggressively to fill open Agricultural Specialist positions and continued progress in reaching full staffing levels has resulted in improvements for FY 2008. Although high-risk land border ports are not yet fully staffed with trained Agricultural Specialists, CBP will attempt to fortify recent gains and make further improvements as the remaining positions are filled. |                   |                   |                   |                   |                    |
| <b>Data Source:</b> USDA Work Accomplishment Data System (WADS) Agricultural Quarantine Inspection monitoring activities.         |  |                   |                   |                   |                   |                    |

**Performance Objective**—Provide support to protect events and key assets of national interest, and mitigate the risks of terrorism and other threats to critical Government operations.

|  |  |
|--|--|
| <b>Performance Measure</b> —Percent of air support launches accomplished to support border ground agents to secure the border. |  |
| <b>Key Highlights</b>  | <b>Target Met</b> —See page 50 for results and detailed discussion |

**Performance Measure**—Percent of at-risk miles under strategic air surveillance (strategic air coverage).

|              |   |
|--------------|---|
| Description: | The percent of at risk miles under strategic air surveillance evaluated according to up-to-the-minute information and intelligence. This measure describes the area of the U.S. border determined to be under the span of control of CBP A&M assets. CBP A&M uses a multi-level layer to aerial response and support to accomplish this goal: 1) strategic surveillance for the P-3 and UAS aircraft, 2) intelligence driven support for the rapid deployment of forces, and 3) strategic and tactical support to ground law enforcement such as the Office of Border Patrol and ICE. |
|--------------|---|

## Key Highlights

|                                 |  |                   |                   |                   |                   |                    |
|---------------------------------|--|-------------------|-------------------|-------------------|-------------------|--------------------|
| Fiscal Year:                    | FY 2004<br>Actual  | FY 2005<br>Actual | FY 2006<br>Actual | FY 2007<br>Actual | FY 2008<br>Target | FY 2008<br>Results |
| Target/Actual Indicator:        | N/A  | N/A               | 55%               | 60%               | 70%               | 84%                |
| Explanation of FY 2008 Results: | <b>Target Met</b> —The program exceeded the targeted level of performance due primarily to deploying four additional UAS and supporting resources to the suite of assets used for strategic air surveillance. The UAS, in conjunction with other resources and assets provided key responders with surveillance information to assist in protecting our borders. |                   |                   |                   |                   |                    |

**Data Source:** SAP, CARMAC, APATS, CAMITS generated reports and analyst spreadsheets.

**Performance Measure**—Numbers of airspace incursions along the southern border (extending the physical zone of security beyond the borders).

|              |  |
|--------------|--|
| Description: | The number of airspace incursions along the southern border. The measure monitors A&M efforts in reducing, with the intent of ultimately denying, the use of border air space for acts of terrorism or smuggling using intelligence and threat assessments. CBP A&M continues to gather and analyze intelligence on past and current threat patterns to forecast and disseminate information about potential and emerging threats. The targeted goals for this measure are to maintain this low level of border incursions at a minimum and reduce it if possible, until there are no border incursions. |
|--------------|--|

## Key Highlights

|                                 |   |                   |                   |                   |                   |                    |
|---------------------------------|---|-------------------|-------------------|-------------------|-------------------|--------------------|
| Fiscal Year:                    | FY 2004<br>Actual   | FY 2005<br>Actual | FY 2006<br>Actual | FY 2007<br>Actual | FY 2008<br>Target | FY 2008<br>Results |
| Target/Actual Indicator:        | N/A   | N/A               | 13                | 32                | 10                | 9                  |
| Explanation of FY 2008 Results: | <b>Target Met</b> —There were only nine incursions of unknown aircraft into U.S. airspace that did not have proper clearance. These aircraft returned to their country of origin without landing in the U.S. Surveillance and interdiction efforts by the program continued to keep at a minimum unauthorized entry into U.S. airspace. |                   |                   |                   |                   |                    |

**Data Source:** TECS, AMOR and validated real-time data.

Strategic Goal #6—Modernizing and Managing

**Performance Objective**—Maintain a reliable, stable, and secure IT infrastructure and an array of technical support services, including laboratory and scientific services, tactical radio communication, field equipment maintenance/support, and round-the-clock customer assistance.

|   |  |
|---|--|
| <b>Performance Measure</b> —Percent of time the Traveler Enforcement Communication System (TECS) is available to end users. |  |
| <b>Key Highlights</b>   | <b>Target Met</b> —See page 51 for results and detailed discussion |



# Financial Section

# Message from the Chief Financial Officer



U.S. Customs and Border Protection (CBP) is charged with the dual mission of protecting our Nation's borders, while facilitating legitimate trade and travel. CBP promotes an effective management infrastructure that fosters the highest standards of integrity while maximizing our partnerships at home and abroad. The men and women of CBP work every day, all day, to protect our country from the threats of global terrorism, illegal immigration, and the trafficking of narcotics and other contraband. CBP personnel work to promote economic security and public safety by enforcing trade laws and intellectual property rights, collecting revenue on goods imported into the United States, and protecting our food supply and agricultural industries from pests and disease. The Office of Finance stands with other

offices in CBP to help accomplish the agency's mission by providing the resources and facilities necessary to ensure mission success.

For the third consecutive year, CBP has received an unqualified opinion on its full set of financial statements. This is a major accomplishment for our agency as we are the second largest revenue collector in the Federal Government and the largest in the U.S. Department of Homeland Security. In addition, CBP's workforce has grown exponentially with the threats our nation faces. The financial stewardship responsibilities of CBP have also grown, as has our diligence in ensuring the effectiveness of that stewardship. Our modernized enterprise resource planning system, SAP, is now going into its fifth year of operation and maintains the financial continuity and internal control environment that allows CBP to demonstrate a sound financial management infrastructure. SAP's modular integration provides all CBP employees and managers with up-to-the-minute financial information necessary to make immediate, front-line specific decisions.

The demand for OF's critical mission support services continues to expand as CBP works to modernize its border security infrastructure and facilities to accommodate the growth in the number of border patrol agents, and the growing complexity of the border security mission.

In response to increasing business partner demands, OF reorganized its Asset Management function to allow for a stand-alone Facilities Management and Engineering (FM&E) organization. FM&E has assumed the leadership role in providing critical support to the border patrol agent hiring surge, and has instituted a Rapid Response Program to complete 73 concurrent facility projects along the Northern and Southern borders to ensure the establishment and maintenance of mission-ready facilities.

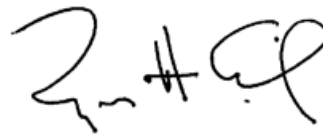
Additionally, to support the DHS Secure Border Initiative (SBI), which seeks to increase the number of border miles under effective operational control, the OF established the Investment Management Office (IMO) to ensure effective investment management practices, acquisition excellence, and the necessary business transformation processes and products. The IMO is responsible for improving CBP's capital investment management program requirements and monitoring CBP investment management activities.

OF also continues to identify and correct issues that emerge from internal management evaluations in support of CBP's Management Assurances, as well as auditor-identified weaknesses in internal controls. I can provide reasonable assurance that CBP has achieved the objectives of Section 2 (Management

Controls) and Section 4 (Financial Management Systems) of the Federal Managers' Financial Integrity Act. In addition, CBP maintains its commitment to addressing all of our financial management challenges by continuing to implement corrective measures that improve oversight and accountability.

In Fiscal Year 2009, CBP continues implementation of numerous efforts to increase border security and to facilitate legitimate trade. These efforts include completing the doubling of the border patrol agent workforce, constructing physical and virtual fences, and border facilities, as well as continuing the development and deployment of the Automated Commercial Environment (ACE).

I am proud to be a U.S. Customs and Border Protection employee, working alongside the men and women who make up this organization. CBP employees are dedicated to our agency mission and to the greater good of helping to secure our homeland and its citizens. Our goal remains to provide timely, reliable, and useful financial information to Congress and the American public, and to enable managers across CBP to make sound business decisions that further the critical agency mission.

A handwritten signature in black ink, appearing to read 'E. Schied', with a stylized flourish at the end.

Eugene H. Schied  
Chief Financial Officer



# Financial Statements

**U.S. Customs and Border Protection**  
**Consolidated Balance Sheets**  
**As of September 30, 2008 and 2007**  
**(in Thousands)**

|  | <b>2008</b>         | <b>2007</b>         |
|--|---------------------|---------------------|
| <b>ASSETS (Note 2)</b>                                       |                     |                     |
| <b>Intragovernmental:</b>                                    |                     |                     |
| Fund Balance with Treasury (Note 3)                          | \$ 7,806,781        | \$ 7,196,406        |
| Accounts Receivable  | 17,856              | 30,553              |
| Receivables Due from Treasury – Refund and Drawback (Note 5) | 151,177             | 175,870             |
| Advances and Prepayments (Note 11)                           | 219,366             | 211,234             |
| <b>Total Intragovernmental</b>                               | <b>8,195,180</b>    | <b>7,614,063</b>    |
| Cash and Other Monetary Instruments (Note 4)                 | 6,926               | 7,181               |
| Accounts Receivable, Net (Note 5)                            | 177,644             | 151,402             |
| Tax, Duties and Trade Receivables, Net (Note 6)              | 2,078,012           | 1,936,874           |
| Inventory and Related Property, Net (Note 7)                 | 102,725             | 76,817              |
| General Property, Plant and Equipment, Net (Note 9)          | 3,508,097           | 2,513,855           |
| Advances and Prepayments (Note 11)                           | 329                 | 417                 |
| <b>TOTAL ASSETS</b>  | <b>\$14,068,913</b> | <b>\$12,300,609</b> |
| Stewardship PP&E (Note 10)                                   |                     |                     |
| <b>LIABILITIES (Note 12)</b>                                 |                     |                     |
| <b>Intragovernmental:</b>                                    |                     |                     |
| Due to the Treasury General Fund                             | \$ 2,389,646        | \$ 2,078,305        |
| Accounts Payable   | 373,478             | 342,049             |
| Accrued FECA Liability (Note 12)                             | 138,021             | 129,558             |
| Other  |                     |                     |
| Employee Benefits and Taxes (Note 15)                        | 62,540              | 42,299              |
| Advances from Others (Note 15)                               | 15,070              | 9,375               |
| <b>Total Intragovernmental</b>                               | <b>2,978,755</b>    | <b>2,601,586</b>    |
|  |                     | <b>(Continued)</b>  |

The accompanying notes are an integral part of these financial statements.

**U.S. Customs and Border Protection**  
**Consolidated Balance Sheets (continued)**  
**As of September 30, 2008 and 2007**  
**(in Thousands)**

|  | <b>2008</b>         | <b>2007</b>         |
|--|---------------------|---------------------|
| Accounts Payable   | 741,144             | 635,306             |
| Accrued Payroll and Benefits (Note 13)                       | 1,214,595           | 1,031,557           |
| Environmental & Disposal Liabilities (Note 12 and 14)        | 12,769              | 12,369              |
| Liabilities for Antidumping/Countervailing Duties            | 164,104             | 597,907             |
| Software License Agreements (Note 12 and 16)                 | 32,737              | 47,680              |
| Legal Contingent Liabilities (Note 17)                       | 59,592              | 83,463              |
| Other  |                     |                     |
| Refunds Payable (Note 15)                                    | 130,020             | 131,053             |
| Injured Domestic Industries (Note 15)                        | 395,478             | 388,138             |
| <b>TOTAL LIABILITIES</b>                                     | <b>\$ 5,729,194</b> | <b>\$ 5,529,059</b> |
| Commitments and Contingencies (Note 17)                      |                     |                     |
| <b>NET POSITION:</b>   |                     |                     |
| Unexpended Appropriations                                    | 4,759,210           | 4,124,660           |
| Cumulative Results of Operations – Earmarked Funds (Note 18) | 1,057,216           | 1,027,476           |
| Cumulative Results of Operations – Other Funds               | 2,523,293           | 1,619,414           |
| <b>TOTAL NET POSITION</b>                                    | <b>\$ 8,339,719</b> | <b>\$ 6,771,550</b> |
| <b>TOTAL LIABILITIES AND NET POSITION</b>                    | <b>\$14,068,913</b> | <b>\$12,300,609</b> |

The accompanying notes are an integral part of these financial statements.

# Financial Statements

**U.S. Customs and Border Protection**  
**Consolidated Statements of Net Cost**  
**For the Years Ended September 30, 2008 and 2007**  
**(in Thousands)**

|  | <b>2008</b>                | <b>2007</b>                |
|--|----------------------------|----------------------------|
| <b>Office of Field Operations Border Security Inspections and Trade Facilitation at Ports of Entry</b> |                            |                            |
| Gross Cost   | \$ 5,873,813               | \$ 5,140,275               |
| Less: Earned Revenue   | <u>204,201</u>             | <u>203,479</u>             |
| <b>Net Program Costs</b>   | <u>5,669,612</u>           | <u>4,936,796</u>           |
| <b>Border Security and Control Between Ports of Entry</b>  |                            |                            |
| Gross Cost   | 3,646,021                  | 2,844,570                  |
| Less: Earned Revenue   | <u>126,753</u>             | <u>112,604</u>             |
| <b>Net Program Costs</b>   | <u>3,519,268</u>           | <u>2,731,966</u>           |
| <b>Air and Marine Operations</b>   |                            |                            |
| Gross Cost   | 425,667                    | 369,251                    |
| Less: Earned Revenue   | <u>14,798</u>              | <u>14,617</u>              |
| <b>Net Program Costs</b>   | <u>410,869</u>             | <u>354,634</u>             |
| <b>Total Gross Cost</b>  | 9,945,501                  | 8,354,096                  |
| <b>Less: Total Earned Revenue</b>  | <u>345,752</u>             | <u>330,700</u>             |
| <b>Net Cost of Operations (Note 19 and 20)</b>   | <u><u>\$ 9,599,749</u></u> | <u><u>\$ 8,023,396</u></u> |

The accompanying notes are an integral part of these financial statements.

**U.S. Customs and Border Protection**  
**Consolidated Statement of Changes in Net Position**  
**For the Year Ended September 30, 2008**  
(in Thousands)

|  | <b>FY 2008</b>             |                            |                               |
|--|----------------------------|----------------------------|-------------------------------|
|  | <b>Earmarked<br/>Funds</b> | <b>All Other<br/>Funds</b> | <b>Consolidated<br/>Total</b> |
| <b>Cumulative Results of Operations:</b>         |                            |                            |                               |
| Beginning Balances                               | \$ 1,027,476               | \$ 1,619,414               | \$ 2,646,890                  |
| <b>Budgetary Financing Sources:</b>              |                            |                            |                               |
| Appropriations Used                              | —                          | 7,254,124                  | 7,254,124                     |
| Non-Exchange Revenue (Note 21)                   | 2,671,195                  | 5,332                      | 2,676,527                     |
| Transfers In/Out Without Reimbursement (Note 21) | (1,612,164)                | 1,808,747                  | 196,583                       |
| Other  | —                          | (19,644)                   | (19,644)                      |
| <b>Other Financing Sources (Non-Exchange):</b>   |                            |                            |                               |
| Donations and Forfeitures of Property            | —                          | 14,002                     | 14,002                        |
| Transfers In/Out Without Reimbursement           | —                          | 131,719                    | 131,719                       |
| Imputed Financing                                | —                          | 280,057                    | 280,057                       |
| Total Financing Sources                          | 1,059,031                  | 9,474,337                  | 10,533,368                    |
| Net Cost of Operations                           | (1,029,291)                | (8,570,458)                | (9,599,749)                   |
| Net Change                                       | 29,740                     | 903,879                    | 933,619                       |
| <b>Cumulative Results of Operations</b>          | <u>\$ 1,057,216</u>        | <u>\$ 2,523,293</u>        | <u>\$ 3,580,509</u>           |
| <b>Unexpended Appropriations:</b>                |                            |                            |                               |
| Beginning Balance                                | —                          | 4,124,660                  | 4,124,660                     |
| <b>Budgetary Financing Sources:</b>              |                            |                            |                               |
| Appropriations Received (Note 23)                | —                          | 7,929,110                  | 7,929,110                     |
| Appropriations Transferred In/Out                | —                          | 15,292                     | 15,292                        |
| Other Adjustments                                | —                          | (55,728)                   | (55,728)                      |
| Appropriations Used                              | —                          | (7,254,124)                | (7,254,124)                   |
| Total Budgetary Financing Sources                | —                          | 634,550                    | 634,550                       |
| <b>Total Unexpended Appropriations</b>           | <u>—</u>                   | <u>4,759,210</u>           | <u>4,759,210</u>              |
| <b>Net Position</b>                              | <u>\$ 1,057,216</u>        | <u>\$ 7,282,503</u>        | <u>\$ 8,339,719</u>           |

The accompanying notes are an integral part of these financial statements.

# Financial Statements

**U.S. Customs and Border Protection**  
**Consolidated Statement of Changes in Net Position**  
**For the Year Ended September 30, 2007**  
**(in Thousands)**

|  | <b>FY 2007</b>         |                        |                           |
|--|------------------------|------------------------|---------------------------|
|  | <b>Earmarked Funds</b> | <b>All Other Funds</b> | <b>Consolidated Total</b> |
| <b>Cumulative Results of Operations:</b>         |                        |                        |                           |
| Beginning Balances                               | \$ 1,094,642           | \$ 1,055,968           | \$ 2,150,610              |
| <b>Budgetary Financing Sources:</b>              |                        |                        |                           |
| Appropriations Used                              | —                      | 5,614,963              | 5,614,963                 |
| Non-Exchange Revenue (Note 21)                   | 2,421,788              | 5,332                  | 2,427,120                 |
| Transfers In/Out Without Reimbursement (Note 21) | (1,551,659)            | 1,808,507              | 256,848                   |
| Other  | —                      | (92,140)               | (92,140)                  |
| <b>Other Financing Sources:</b>                  |                        |                        |                           |
| Donations and Forfeitures of Property            | —                      | 3,618                  | 3,618                     |
| Transfers In/Out Without Reimbursement           | (49)                   | 3,558                  | 3,509                     |
| Imputed Financing                                | —                      | 305,758                | 305,758                   |
| Total Financing Sources                          | 870,080                | 7,649,596              | 8,519,676                 |
| Net Cost of Operations                           | (937,246)              | (7,086,150)            | (8,023,396)               |
| Net Change                                       | (67,166)               | 563,446                | 496,280                   |
| <b>Cumulative Results of Operations</b>          | <b>\$ 1,027,476</b>    | <b>\$ 1,619,414</b>    | <b>\$ 2,646,890</b>       |
| <b>Unexpended Appropriations:</b>                |                        |                        |                           |
| Beginning Balance                                | —                      | 2,971,412              | 2,971,412                 |
| <b>Budgetary Financing Sources:</b>              |                        |                        |                           |
| Appropriations Received (Note 23)                | —                      | 6,733,265              | 6,733,265                 |
| Appropriations Transferred In/Out                | —                      | 62,883                 | 62,883                    |
| Other Adjustments                                | —                      | (27,937)               | (27,937)                  |
| Appropriations Used                              | —                      | (5,614,963)            | (5,614,963)               |
| Total Budgetary Financing Sources                | —                      | 1,153,248              | 1,153,248                 |
| <b>Total Unexpended Appropriations</b>           | <b>—</b>               | <b>4,124,660</b>       | <b>4,124,660</b>          |
| <b>Net Position</b>                              | <b>\$ 1,027,476</b>    | <b>\$ 5,744,074</b>    | <b>\$ 6,771,550</b>       |

The accompanying notes are an integral part of these financial statements.

**U.S. Customs and Border Protection**  
**Combined Statements of Budgetary Resources**  
**For the Years Ended September 30, 2008 and 2007**  
**(in Thousands)**

|  | <b>2008</b>         | <b>2007</b>         |
|--|---------------------|---------------------|
| <b>Budgetary Resources:</b>                      |                     |                     |
| Unobligated Balance, Brought Forward, October 1: | \$ 2,894,905        | \$ 2,295,543        |
| Recoveries of Prior Year Unpaid Obligations      | 485,599             | 198,505             |
| Budget Authority                                 |                     |                     |
| Appropriation (Note 23)                          | 11,972,974          | 11,190,407          |
| Spending Authority from Offsetting Collections   |                     |                     |
| Earned   |                     |                     |
| Collected  | 1,612,125           | 1,514,055           |
| Change in Receivables from Federal Sources       | (5,886)             | (33,960)            |
| Change in Unfilled Customer Orders               |                     |                     |
| Advance Received                                 | 125                 | (2,401)             |
| Without Advance from Federal Sources             | (34,201)            | (20,196)            |
| Expenditure Transfers from Trust Funds           | 3,093               | 3,026               |
| Subtotal   | 13,548,230          | 12,650,931          |
| Nonexpenditure Transfers from Trust Funds        | 336,663             | 373,904             |
| Actual Transfers, Budget Authority               | (3,000)             | —                   |
| Permanently Not Available                        | (86,880)            | (102,524)           |
| <b>Total Budgetary Resources</b>                 | <b>\$17,175,517</b> | <b>\$15,416,359</b> |
| <b>Status of Budgetary Resources:</b>            |                     |                     |
| Obligations Incurred (Note 22):                  |                     |                     |
| Direct   | \$12,862,976        | \$11,034,771        |
| Reimbursable                                     | 1,763,531           | 1,486,683           |
| Subtotal   | 14,626,507          | 12,521,454          |
| Unobligated Balance:                             |                     |                     |
| Apportioned                                      | 7,892               | 16,641              |
| Exempt from Apportionment                        | —                   | —                   |
| Subtotal   | 7,892               | 16,641              |
| Unobligated Balance Not Available                | 2,541,118           | 2,878,264           |
| <b>Total Status of Budgetary Resources</b>       | <b>\$17,175,517</b> | <b>\$15,416,359</b> |

**(Continued)**

The accompanying notes are an integral part of these financial statements.



# Financial Statements

**U.S. Customs and Border Protection**  
**Combined Statements of Budgetary Resources (continued)**  
**For the Years Ended September 30, 2008 and 2007**  
**(in Thousands)**

|   | <u>2008</u>         | <u>2007</u>         |
|---|---------------------|---------------------|
| <b>Change in Obligated Balances:</b>  |                     |                     |
| Obligated Balance, Net  |                     |                     |
| Unpaid Obligations, Brought Forward, October 1                                    | \$ 4,069,728        | \$ 3,067,174        |
| Uncollected Customer Payments from Federal Sources,<br>Brought Forward, October 1 | (320,785)           | (374,941)           |
| Total Unpaid Obligated Balance, Net   | 3,748,943           | 2,692,233           |
| Obligations Incurred, Net   | 14,626,507          | 12,521,454          |
| Gross Outlays   | (12,832,924)        | (11,354,401)        |
| Obligated Balance Transferred, Net  |                     |                     |
| Actual Transfers, Unpaid Obligations  | —                   | 34,008              |
| Recoveries of Prior Year Unpaid Obligations, Actual                               | (485,599)           | (198,505)           |
| Change in Uncollected Customer Payments from Federal Sources                      | 40,087              | 54,156              |
| Obligated Balance, Net End of Period  |                     |                     |
| Unpaid Obligations  | 5,377,713           | 4,069,728           |
| Uncollected Customer Payments from Federal Sources                                | (280,699)           | (320,785)           |
| Total, Unpaid Obligated Balance, Net, End of Period                               | 5,097,014           | 3,748,943           |
| <b>Net Outlays:</b>   |                     |                     |
| Gross Outlays   | 12,832,924          | 11,354,401          |
| Offsetting Collections  | (1,615,343)         | (1,514,680)         |
| Distributed Offsetting Receipts   | (2,633,691)         | (2,360,600)         |
| Total Net Outlays   | <u>\$ 8,583,890</u> | <u>\$ 7,479,121</u> |

The accompanying notes are an integral part of these financial statements.

**U.S. Customs and Border Protection**  
**Consolidated Statements of Custodial Activity**  
**For the Years Ended September 30, 2008 and 2007**  
**(in Thousands)**

|   | <b>2008</b>           | <b>2007</b>           |
|---|-----------------------|-----------------------|
| <b>Revenue Activity (Note 27):</b>                          |                       |                       |
| <b>Sources of Cash Collections:</b>                         |                       |                       |
| Duties  | \$ 27,319,994         | \$ 26,657,868         |
| User Fees   | 1,514,337             | 1,307,306             |
| Excise Taxes  | 2,457,352             | 2,626,443             |
| Fines and Penalties   | 70,770                | 56,321                |
| Interest  | 24,038                | 13,277                |
| Miscellaneous   | 9,537                 | 2,548                 |
| <b>Total Cash Collections</b>                               | <b>31,396,028</b>     | <b>30,663,763</b>     |
| <br>Accrual Adjustments (+/-)                               | <br>128,194           | <br>5,727,469         |
| <b>Total Custodial Revenue</b>                              | <b>\$ 31,524,222</b>  | <b>\$ 36,391,232</b>  |
| <br><b>Disposition of Collections:</b>                      |                       |                       |
| <b>Transferred to Others:</b>                               |                       |                       |
| Treasury General Fund Accounts                              | \$ 20,947,673         | \$ 23,542,946         |
| U.S. Department of Agriculture                              | 8,257,729             | 147,421               |
| Other Federal Agencies                                      | 22,980                | 21,214                |
| Government of Puerto Rico                                   | 12,089                | 14,158                |
| Government of the U.S. Virgin Islands                       | 1,613                 | 5,299                 |
| Refunds and Drawbacks (Note 27)                             | 1,295,705             | 6,922,034             |
| Non-Federal Other   | 856,938               | 13,229                |
| <b>(Increase)/Decrease in Amounts Yet to be Transferred</b> | <b>129,495</b>        | <b>5,724,931</b>      |
| <br><b>Total Disposition of Custodial Revenue</b>           | <br><b>31,524,222</b> | <br><b>36,391,232</b> |
| <b>Net Custodial Activity</b>                               | <b>\$ —</b>           | <b>\$ —</b>           |

The accompanying notes are an integral part of these financial statements.

## Notes to Financial Statements

### 1. Significant Accounting Policies

#### Reporting Entity

U.S. Customs and Border Protection (CBP), was created on March 1, 2003, and is a component of the U.S. Department of Homeland Security (DHS). CBP is the unified border agency whose priority mission is the prevention of terrorist and terrorist weapons from entering the U.S. CBP is also responsible for administering the U.S. Trade Program and U.S. Narcotics Enforcement Program. CBP meets these responsibilities by: (1) enforcing the laws governing the flow of merchandise or commerce across the borders of the U.S.; (2) assessing and collecting duties, taxes, and fees on imported and other goods and services; and (3) enforcing drug-related and other laws and regulations of the U.S. on behalf of federal agencies and/or in conjunction with various state, local, and other federal agencies and foreign countries.

Substantially all of duty, tax, and fee revenues collected by CBP are remitted to various general fund accounts maintained by Treasury and U.S. Department of Agriculture. Treasury further distributes these revenues to other federal agencies in accordance with various laws and regulations. CBP transfers the remaining revenue (generally less than 1 percent of revenues collected) directly to other federal agencies, the Government of Puerto Rico, and the U.S. Virgin Islands. Refunds of revenues collected from import/export activity are recorded in separate accounts established for this purpose and are funded through a permanent indefinite appropriation. These activities reflect the non-entity or custodial responsibilities that CBP, as an agency of the Federal Government, has been authorized by law to enforce.

#### Basis of Accounting and Presentation

These financial statements have been prepared from CBP accounting records in conformity with generally accepted accounting principles (GAAP). GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board, which was designated the official accounting standard-setting body of the Federal Government by the American Institute of Certified Public Accountants. The statements consist of the Consolidated Balance Sheet, the Consolidated Statement of Net Cost, the Consolidated Statement of Changes in Net Position, the Combined Statement of Budgetary Resources, and the Consolidated Statement of Custodial Activity.

These financial statements should be read with the understanding that CBP is a component of a sovereign entity; for which budgetary resources cannot be liquidated without the enactment of an appropriation, and that payment of liabilities other than for contracts can be abrogated by the sovereign entity.

These financial statements, with respect to the Consolidated Balance Sheet, the Consolidated Statement of Net Cost, and the Consolidated Statement of Changes in Net Position, are reported using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when a liability is incurred without regard to receipt or payment of cash. The Combined Statement of Budgetary Resources is reported using the budgetary basis of accounting. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds. It generally differs from the accrual basis of accounting in that obligations are recognized when new orders are placed, contracts awarded, and services received that will require payments during the same or future

period. CBP non-entity revenue and refunds are reported on the Consolidated Statement of Custodial Activity using a modified cash basis. With this method, revenue from cash collections are reported separately from receivable accruals and cash disbursements are reported separately from payable accruals.

In accordance with OMB Circular A-136, intra-CBP transactions and balances have been eliminated from the Consolidated Balance Sheet, Consolidated Statement of Net Cost, and the Consolidated Statement of Changes in Net Position. As provided for by OMB Circular A-136, the Combined Statement of Budgetary Resources is presented on a combined basis; therefore, intra-CBP transactions and balances have not been eliminated from this statement.

## Earmarked Funds

The Statement of Federal Financial Accounting Standards (SFFAS) No. 27, *Identifying and Reporting Earmarked Funds*, requires CBP to separate dedicated collections into two categories, earmarked and fiduciary activity. See Note 18, Earmarked Funds, for specific required disclosures related to CBP's earmarked funds.

CBP has program management responsibility for the following earmarked funds:

| Appropriation | Title                              |
|---------------|------------------------------------|
| 70X5087       | CBP — Immigration User Fees        |
| 70X5695       | Customs User Fees Account          |
| 70X5089       | Land Border Inspection Fees        |
| 70X5451       | Enforcement Fines Account          |
| 70X5543       | International Registered Traveler  |
| 70X5694       | Small Airport User Fees            |
| 70X8870       | Harbor Maintenance Fee Collections |

## Assets and Liabilities

Intragovernmental assets and liabilities result from activity with other federal agencies. All other assets and liabilities result from activity with parties outside the Federal Government, such as domestic and foreign persons, organizations, or governments.

## Fund Balance with Treasury, Cash, and Other Monetary Assets

Entity Fund Balance with Treasury are the amounts remaining as of September 30, 2008 and 2007 from which CBP is authorized to make expenditures and pay liabilities resulting from operational activity, except as restricted by law. Non-entity Fund Balance with Treasury represents funds available to pay refunds and drawback claims of duties, taxes, fees, and other non-entity amounts to be distributed to the Treasury General Fund and other federal accounts in a future period.

A timing difference occurs when cash is received and applied to a specific revenue type in one period, and the deposit occurs in a future period. Monetary instruments are held by CBP in lieu of an importer/broker filing a surety bond. Corresponding liabilities are recorded for amounts expected to be allocated in future periods to federal agencies.

# Notes to Financial Statements

## **Advances and Prepayments**

Intragovernmental advances and prepayments consist of amounts paid to federal agencies prior to CBP receipt of goods and services. Advances and prepayments to the public consist primarily of prepaid rent.

## **Accounts Receivable**

Intragovernmental accounts receivable represent amounts due from federal agencies. These receivables are expected to be fully collected. Accounts receivable from reimbursable services and user fees represent amounts due from non-federal sources for services performed. By law, collections of these receivables can be credited to the appropriation accounts from which the related costs were paid. These receivables are net of amounts deemed uncollectible which are determined by considering the debtor's current ability to pay, payment record and/or as well as the probable recovery of amounts from secondary sources, such as sureties, and an analysis of aged receivable activity. The user fee receivable is based on a calculated estimate using historical user fee receivables.

Title 19 of the United States Code, chapter 1, section 58c, authorizes CBP, formerly known as the United States Customs Service, to collect user fees for services provided in connection with the processing of commercial air and commercial vessel passengers, loaded or partially loaded railroad cars carrying passengers, or commercial flights arriving into the customs territory as defined in general note 2 of the Harmonized Tariff Schedule of the United States (some exceptions apply).

Receivables accrue for commercial airline and commercial vessel fees on a quarterly basis and the payments are due to CBP within thirty-one days after the close of the calendar quarter in which the fees are collected. Railroad car fees accrue on a monthly basis and the payments are due to CBP on or before the date that is sixty days after the applicable month.

Title 8 of the United States Code, chapter 12, subchapter II, part IX, section 1356, authorizes CBP to collect immigration user fees for inspection or pre-inspection of passengers arriving at a port of entry in the United States (as defined in Title 8, chapter 12, subchapter I, section 1101) aboard a commercial aircraft and commercial vessel (some exceptions apply). Receivables accrue for commercial airline and commercial vessel user fees on a quarterly basis. Payment is due any time within thirty-one days after the quarter in which the fees are collected, except the July and August fees collected from airline passengers shall be made ten days before the end of the fiscal year. The first quarter payment shall include any collections made in the preceding quarter that were not remitted with the previous payment.

## **Receivable Due from Treasury and Due to the Treasury General Fund**

The Receivable Due from Treasury represents amounts to be provided by Treasury to fund accrued liabilities of duty, tax, and/or fee refunds and drawbacks. Due to the Treasury General Fund is the offsetting liability to non-entity collections and non-entity receivables.

## **Tax, Duties, and Trade Receivables**

Accounts receivable consist of duties, user fees, fines and penalties, refunds and drawback overpayments, and interest associated with import/export activity, which have been established as a specifically identifiable, legally enforceable claim which remain uncollected as of year-end. These receivables are net of amounts deemed uncollectible which were determined by considering the debtor's payment record and

willingness to pay, the probable recovery of amounts from secondary sources, such as sureties, and an analysis of aged receivable activity. CBP's non-entity receivables are described in more detail in Note 6, Tax, Duties, and Trade Receivables, Net.

## **Inventory and Related Property**

Inventory and Related Property consist of aircraft and marine parts and materials to be used in CBP's operations. Aircraft parts and materials are recorded at average unit cost, and marine parts and materials are recorded using the First-In-First-Out valuation method. Both methods approximate actual acquisition costs. When ultimately used in CBP operations, an operating expense is recorded.

## **Seized and Forfeited Property**

Prohibited seized and forfeited property results primarily from CBP criminal investigations and passenger/cargo processing. Seized property is not considered an asset of CBP and is not reported as such in CBP's financial statements; however, CBP has a stewardship responsibility until disposition of the seized items are determined. Non-prohibited seized property, including monetary instruments, real property, and tangible personal property of others in the actual or constructive possession of CBP will be transferred to the Treasury Forfeiture Fund and is not presented in the accompanying CBP Consolidated Balance Sheet or Note 8, Seized and Forfeited Property.

Forfeited property is property for which the title has passed to the U.S. Government. As noted above, non-prohibited forfeited property or currency becomes assets of the Treasury Forfeiture Fund. However, prohibited forfeited items, such as counterfeit goods, narcotics, or firearms, are held by CBP until disposed or destroyed. In accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 3, ***Accounting for Inventory and Related Property***, analysis of changes in seized and forfeited property of prohibited items are disclosed in Note 8, Seized and Forfeited Property.

## **General Property, Plant, and Equipment**

CBP capitalized property, plant, and equipment with an acquisition value of \$5,000 or greater and a useful life of 2 years or greater if acquired prior to October 1, 1995. Beginning October 1, 1995, CBP capitalizes property, plant, and equipment with an acquisition value of \$50,000 or greater, and a useful life of 2 years or greater. The property, plant, and equipment assets acquired by CBP from the former Immigration and Naturalization Service as part of the formation of the Department of Homeland Security were capitalized if the acquisition value was \$25,000 or greater. As of October 1, 2000, CBP implemented SFFAS No. 10, *Accounting for Internal Use Software*. SFFAS No. 10 requires the capitalization of all internal use software, including commercial off-the-shelf, contractor developed, and internally developed software. As a result, CBP began capitalizing costs associated with the development of internal use software. In addition, CBP implemented the SFFAS No. 10 recommendation to apply capital lease accounting concepts to software license fee agreements that give CBP the "right to use" the software. Prior to October 1, 2000, costs relating to the development of internal use software and "right to use" license agreements were expensed.

Expenditures for normal repairs and maintenance are charged to expense as incurred. Expenditures greater than \$50,000 for improving or rebuilding an asset and increases an asset's useful life are capitalized. Prior to October 1, 1995, expenditures greater than \$5,000 for improving or rebuilding an asset and that increased an asset's useful life were capitalized.



# Notes to Financial Statements

Depreciation and amortization are computed using the straight line method over the estimated useful lives of the assets ranging from 2 to 30 years for equipment and software, 2 to 30 years for leasehold improvements, and 6 to 40 years for buildings, structures, and land improvements. Amortization of capitalized software begins on the date of acquisition if purchased or when the module or component has been successfully tested if contractor or internally developed.

## **Commercial/Travel Payable**

A liability is recorded for an accounts payable accrual from commercial/travel activities. A portion of this liability is determined using a calculated estimate. This estimate is based on a ratio developed using historical subsequent disbursements and undelivered orders and applying the ratio to the undelivered orders as of September 30, 2008 and 2007.

## **Other Non-Entity Items in CBP Custody**

CBP has the authority, in accordance with provisions of the Federal Crime Code and Federal Rules of Criminal Procedures, to retain property within its custody for evidentiary purposes. Because this property is not seized under seizure and forfeiture laws, it cannot become property of the U.S. Government and is intended to be returned to the owner at some future date. This evidence is not disclosed in the financial statements or a related note as the amount is not significant, but does represent a fiduciary responsibility of CBP.

## **Accrued Annual, Sick, and Other Leave and Compensatory Time**

Annual leave, compensatory time, and other leave time are accrued when earned. The accrual is presented as a component of the payroll and benefits liability in the Consolidated Balance Sheet and is adjusted for changes in compensation rates and reduced for annual leave taken. Sick leave is not accrued when earned, but is expensed when taken. For additional information see Note 13, Accrued Payroll and Benefits.

## **Pension Costs, Other Retirement Benefits, and Other Post-Employment Benefits**

Most CBP employees hired prior to January 1, 1984, participate in the Civil Service Retirement System (CSRS). CBP contributes 7 percent of base pay for regular employees, and 7.5 percent for law enforcement agents. Employees hired after December 31, 1983, are automatically covered by the Federal Employees' Retirement System (FERS) and Social Security. A primary feature of FERS is that it offers a savings plan to which CBP automatically contributes 1 percent of base pay and matches any employee contributions up to an additional 4 percent of base pay. For most employees hired after December 31, 1983, CBP also contributes the employee's matching share for Social Security. For the FERS basic benefit CBP contributes 11.2 percent of base pay for regular employees and 24.9 percent for law enforcement agents. The pay base for determining CBP contributions to CSRS and FERS for inspectors and canine officers includes regular pay and up to a maximum of \$17,500 in certain overtime earnings for FY 2008 and 2007. CBP recognizes the full costs of its employees' pension benefits; however, the liability associated with these costs is recognized by the Office of Personnel Management (OPM).

Similar to Federal retirement plans, OPM, rather than CBP, reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefits Program and the Federal Employees Group Life Insurance Program.

A liability for other post-employment benefits, which includes all types of benefits to former or inactive (but not retired) employees, their beneficiaries, and covered dependents, is also recognized. For additional information see Note 13, Accrued Payroll and Benefits.

## **Workers' Compensation**

A liability is recorded for actual and estimated future payments to be made for workers' compensation pursuant to the Federal Employees' Compensation Act (FECA). The actual liability is presented as a component of intragovernmental other liabilities and the actuarial liability is presented as Federal Employee and Veterans Benefits in the accompanying Consolidated Balance Sheet. The FECA program is administered by the U.S. Department of Labor (DOL), which initially pays valid claims and subsequently seeks reimbursement from federal agencies employing the claimants. Reimbursement to DOL on payments made usually occurs approximately 2 years subsequent to the actual disbursement. Budgetary resources for this intragovernmental liability are made available to CBP as part of its annual appropriation from Congress in the year in which the reimbursement takes place.

Additionally, the actuarial liability due to the public includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Based on information provided by DOL, DHS allocates the actuarial liability to its components and department offices based on the payment history for the components and department offices. The accrued liability is not covered by budgetary resources and will require future funding.

## **Unexpended Appropriations**

Unexpended appropriations represent the amount of CBP unexpended appropriated spending authority as of fiscal year-end that is unliquidated or is unobligated and has not lapsed, been rescinded, or withdrawn.

## **Cumulative Results of Operations**

Cumulative Results of Operations primarily represent the excess of user fee revenues over related expenses. It also reflects the net investment in Property, Plant and Equipment, Inventory and Related Property held for use, and transfers in of equipment, materials, and supplies from other federal agencies without reimbursement. Also, included as a reduction in Cumulative Results of Operations, are liabilities incurred, which will require funding from future appropriations, such as accumulated annual and other leave earned but not taken, accrued workers' compensation, and contingent liabilities. The portion of Cumulative Results of Operations attributable to earmarked funds is shown separately on both the Consolidated Statement of Changes in Net Position and the Consolidated Balance Sheet. For additional information see Note 18, Earmarked Funds.

## **Revenue, Financing Sources, and Expense Recognition**

CBP entity activities are financed principally through appropriations, exchange revenue, and non-exchange revenue. Appropriations used are recognized as a financing source when expenses are incurred or assets are purchased. Exchange revenues from reimbursable services and intragovernmental reimbursable activity are recognized as earned when the goods or services are provided and reflect the full cost of the goods or services provided. Non-exchange revenue from user fees is recognized as earned in accordance with

# Notes to Financial Statements

the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended. CBP may retain the user fee revenues and expend them as authorized by law for CBP inspector overtime and other activities directly related to the services to which the fees relate. An imputed financing source is also recognized to offset costs incurred by CBP but funded by another federal source, generally in the period in which the cost was incurred. Expenses are recognized when goods or services are received, when inventory is used, or assets are depreciated or amortized.

The FY 2008 and 2007 activities reported on the Consolidated Statement of Net Cost contain all resource costs assigned from CBP cost centers. All field operational cost centers were surveyed for time spent in the Passenger Processing, Trade Compliance, Outbound Operations, and field Mission Support activities. For enforcement operational cost centers, the time spent in the activities was extracted from the Customs Electronic Data Warehouse. Time reported by the field and enforcement operational cost centers is also used to assign mission support and overhead costs to “front-line” activities.

Non-entity Revenue is recognized when the cash CBP is entitled to collect on behalf of the Federal Government is received. Primarily, these revenue collections result from current fiscal year activities. The significant types of revenues collected and related disbursements are described below:

- Duties: amounts collected on imported goods.
- User fees: amounts collected for certain services as provided by law.
- Excise taxes: amounts collected on imported distilled spirits, wines and tobacco products, and other miscellaneous taxes collected on behalf of the Federal Government.
- Fines and penalties: amounts collected for violations of laws and regulations.
- Refunds: payments made to importers/exporters are primarily identified when the import entries are liquidated, a process in which CBP makes final determination of duties, taxes, fees, and interest owed on each entry and compares it to the estimated amount previously determined and paid by the importer/broker. Interest is included in the refund generally for the period of time between when the estimated amounts were received from the importer/broker and the time the entry is liquidated. When a refund is identified prior to liquidation, the refund from this remittance is funded from the duty, tax, or fee collections rather than from the Refunds and Drawback Account.
- Drawback: a remittance, in whole or in part, of duties, taxes, or fees. Drawback typically occurs when the imported goods on which duties, taxes, or fees have been previously paid are subsequently exported from the United States or destroyed prior to entering the commerce of the United States. Depending on the type of claim, the claimant has up to 6 or 8 years from the date of importation to file for drawback.

A financing source for refunds and drawback is recognized when payment is made. The financing source, representing the permanent, indefinite appropriation account used to fund the disbursement, is recorded as a decrease in the amount transferred to Treasury General Fund Accounts reported on the Statement of Custodial Activity.

An accrual adjustment is included to adjust cash collections and refund disbursements with the net increase or decrease of accrued Non-entity Accounts Receivables, net of uncollectible amounts, and refunds payable. CBP will also take into custody, without risk or expense, merchandise termed “general order property” which for various reasons cannot legally enter into the commerce of the United States.

CBP's sole responsibility for the general order property is to ensure the property does not enter into U.S. commerce. If general order property remains in CBP custody for a prescribed period of time, without payment of all estimated duties, storage, and other charges, the property is considered unclaimed and abandoned and can be sold by CBP at public auction. Auction sales revenue in excess of charges associated with the sale or storage of the item is remitted to the Treasury General Fund. In some cases, CBP incurs charges prior to the sale and funds these costs from entity appropriations. Regulations permit CBP to offset these costs of sale before returning excess amounts to Treasury. Proceeds from the sale of general order property totaled \$4.5 million and \$5.6 million for the years ended September 30, 2008 and 2007, respectively. Excess amounts returned to the Treasury General Fund totaled \$372,000 and \$478,000 for the years ended September 30, 2008 and 2007, respectively.

### **Use of Estimates**

Management has made certain estimates and assumptions in the reporting of assets, liabilities, and note disclosures in the Consolidated Balance Sheet, the Consolidated Statement of Net Cost, the Consolidated Statement of Changes in Net Position, the Combined Statement of Budgetary Resources, the Consolidated Statement of Custodial Activity, and accompanying notes. Actual results could differ from these estimates. Significant estimates include: year-end accruals of accounts payable, contingent legal and environmental liabilities, accrued workers' compensation, allowance for doubtful accounts receivable, retirement and post-retirement benefits assumptions, and certain non-entity receivables and payables related to custodial activities.

### **Taxes**

CBP, as a federal component, is not subject to federal, state, or local income taxes, and accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

# Notes to Financial Statements

## 2. Non-Entity Assets

Non-entity assets as of September 30, 2008 and 2007, consist of the following (in thousands):

|  | 2008          | 2007          |
|--|---------------|---------------|
| <b>Intragovernmental:</b>                        |               |               |
| Fund Balance with Treasury (Note 3)              | \$ 858,130    | \$ 1,123,689  |
| Receivables Due from Treasury (Note 5)           | 151,177       | 175,870       |
| Total Intragovernmental                          | 1,009,307     | 1,299,559     |
| <b>Public:</b>                                   |               |               |
| Accounts Receivable, Net                         | 1,237         | 2,538         |
| Cash and Other Monetary Instruments (Note 4)     | 6,336         | 5,207         |
| Tax, Duties, and Trade Receivables, Net (Note 6) | 2,078,012     | 1,936,874     |
| Property, Plant, and Equipment, Net              | 2,097         | 2,423         |
| Total Public                                     | 2,087,682     | 1,947,042     |
| <b>Total Non-Entity Assets</b>                   | 3,096,989     | 3,246,601     |
| <b>Total Entity Assets</b>                       | 10,971,924    | 9,054,008     |
| <b>Total Assets</b>                              | \$ 14,068,913 | \$ 12,300,609 |

Non-entity Fund Balance with Treasury as of September 30, 2008 and 2007 includes approximately \$144.7 million and \$465 million (in deposit fund) in duties collected by CBP for unliquidated anti-dumping/countervailing duties and \$705.3 million and \$573.7 million for Injured Domestic Industries as of September 30, 2008 and 2007, respectively. These assets offset accrued liabilities as of September 30, 2008 and 2007.

Non-entity Fund Balance with Treasury consists of special and deposit funds, permanent appropriations, and miscellaneous receipts that are available to pay non-entity liabilities. Non-entity Receivables Due from Treasury represent an estimate of duty, tax, and/or fee refunds and drawbacks that will be reimbursed by a permanent and indefinite appropriation account. Tax, Duties, and Trade receivables from the public represent amounts due from importers for goods and merchandise imported to the United States and, upon collection, will be available to pay the accrued intragovernmental liability Due to the Treasury General Fund, which equaled \$2.4 billion and \$2.1 billion as of September 30, 2008 and 2007.

## 3. Fund Balance with Treasury

Fund Balance with Treasury as of September 30, 2008 and 2007 consists of the following (in thousands):

| <b>2008</b>   | <b>Entity</b>       | <b>Non-Entity</b> | <b>Totals</b>       |
|---------------|---------------------|-------------------|---------------------|
| Trust Funds   | \$ 4,987            | \$ —              | \$ 4,987            |
| Special Funds | 950,817             | 705,263           | 1,656,080           |
| General Funds | 5,990,578           | 8,210             | 5,998,788           |
| Deposit Funds | 2,269               | 144,657           | 146,926             |
| <b>Totals</b> | <b>\$ 6,948,651</b> | <b>\$ 858,130</b> | <b>\$ 7,806,781</b> |

| <b>2007</b>   | <b>Entity</b>       | <b>Non-Entity</b>   | <b>Totals</b>       |
|---------------|---------------------|---------------------|---------------------|
| Trust Funds   | \$ 5,902            | \$ —                | \$ 5,902            |
| Special Funds | 934,181             | 573,703             | 1,507,884           |
| General Funds | 5,128,074           | 84,774              | 5,212,848           |
| Deposit Funds | 4,560               | 465,212             | 469,772             |
| <b>Totals</b> | <b>\$ 6,072,717</b> | <b>\$ 1,123,689</b> | <b>\$ 7,196,406</b> |

Trust funds are both receipt accounts and expenditure accounts that are designated by law as a trust fund. The entity trust fund balances result from CBP authority to use the proceeds from general order items sold at auction to offset specific costs incurred by CBP relating to their sale, and to use available funds from the Harbor Maintenance Fee Trust Fund to offset administrative expenses related to the collection of the Harbor Maintenance Fee.

Special funds are receipt funds used for specific purposes. Entity amounts comprising the special fund balances result from CBP authority to assess and collect passenger- and conveyance-related user fees, CBP authority to assess and collect fees associated with services performed at certain small airports or other facilities, and CBP authority to retain amounts needed to offset costs associated with collecting duties, taxes, and fees for the Government of Puerto Rico. As of September 30, 2008 and 2007, CBP User Fees Account contained approximately \$767.7 million and \$729.9 million, respectively; CBP Services at Small Airports account contained approximately \$12.8 million and \$10.4 million, respectively; and the Refunds, Transfers, and Expenses of Operation of Puerto Rico account contained approximately \$39.3 million and \$32.9 million, respectively. CBP also has entity special funds for immigration user fees of \$128.5 million and \$159.1 million, land border inspection fees of \$2.3 million and \$1.5 million, and immigration enforcement account of \$.2 million and \$.3 million as of September 30, 2008 and 2007, respectively. Non-entity fund balance includes monies received in connection with antidumping and countervailing duty orders and findings to qualifying Injured Domestic Industries of \$705.3 million and \$573.7 million as of September 30, 2008 and 2007, respectively.

General funds consist of amounts appropriated annually by Congress to fund the operations of CBP. The non-entity general fund balance represents permanent, indefinite appropriations to pay refunds and drawback claims of duties, taxes, or fees. The balance is presented as a non-entity balance because the refund and drawback payments are associated with CBP custodial activity of collecting revenue on behalf of the Federal Government.



## Notes to Financial Statements

The entity deposit fund balance represents amounts received as an advance that are not accompanied by an order. Once the order is received, the deposit fund balance is decreased. Deposit funds represent amounts received as an advance that are not accompanied by an order and include non-entity collections.

Status of Fund Balance with Treasury as of September 30, 2008 and 2007 consists of the following (in thousands):

| <b>2008</b>                         | <b>Entity</b>       | <b>Non-Entity</b> | <b>Totals</b>       |
|-------------------------------------|---------------------|-------------------|---------------------|
| Unobligated Balance                 |                     |                   |                     |
| Available                           | \$ 7,892            | \$ 858,130        | \$ 866,022          |
| Unavailable                         | 1,116,847           | —                 | 1,116,847           |
| Obligated Balance not yet Disbursed | 5,104,904           | —                 | 5,104,904           |
| Restricted Unobligated Funds        | 719,008             | —                 | 719,008             |
| <b>Totals</b>                       | <b>\$ 6,948,651</b> | <b>\$ 858,130</b> | <b>\$ 7,806,781</b> |

| <b>2007</b>                         | <b>Entity</b>       | <b>Non-Entity</b>   | <b>Totals</b>       |
|-------------------------------------|---------------------|---------------------|---------------------|
| Unobligated Balance                 |                     |                     |                     |
| Available                           | \$ 16,641           | \$ 1,123,689        | \$ 1,140,330        |
| Unavailable                         | 1,624,298           | —                   | 1,624,298           |
| Obligated Balance not yet Disbursed | 3,751,514           | —                   | 3,751,514           |
| Restricted Unobligated Funds        | 680,264             | —                   | 680,264             |
| <b>Totals</b>                       | <b>\$ 6,072,717</b> | <b>\$ 1,123,689</b> | <b>\$ 7,196,406</b> |

Amounts reported as Unobligated Balance Unavailable and Obligated Balance not yet Disbursed will not match amounts reported on the Combined Statement of Budgetary Resources due to CBP reporting all Non-Entity Fund Balance with Treasury amounts as Unobligated Balance Available.

Portions of the Unobligated Balance Unavailable include amounts appropriated in prior fiscal years that are not available to fund new obligations. However, it can be used for upward and downward adjustments for existing obligations in future years.

The Obligated Balance not yet Disbursed represents amounts designated for payment of goods or services ordered, but not received, or goods and services received but for which payment has not yet been made.

CBP returned to Treasury \$31.2 million and \$73.5 million for indefinite no-year authority and retained \$1.7 million and \$1.9 million in authority for obligations pursuant to public law during both the years ending September 30, 2008 and 2007.

In accordance with Public Law 101-510, CBP is required to automatically cancel obligated and unobligated balances of appropriated funds 5 years after a fund expires. Obligations that have not been paid at the time an appropriation is canceled may be paid from an unexpired appropriation that is available for the same general purpose. As of September 30, 2008, CBP canceled \$28.1 million from FY 2003 annual appropriations, of which \$31.4 million was deobligated. As of September 30, 2007, CBP canceled \$29 million from FY 2002 annual appropriations, of which \$23.8 million was deobligated. Based on historical

activity, CBP estimates obligations related to canceled appropriations that will be paid from future appropriations would not exceed \$1 million in any fiscal year.

## 4. Cash and Other Monetary Instruments

Cash and Other Monetary Instruments as of September 30, 2008 and 2007, consist of the following (in thousands):

| <b>2008</b>             | <b>Entity</b> | <b>Non-Entity</b> | <b>Totals</b>   |
|-------------------------|---------------|-------------------|-----------------|
| Imprest Funds           | \$ 147        | \$ —              | \$ 147          |
| Undeposited Collections | 443           | 5,636             | 6,079           |
| Monetary Instruments    | —             | 700               | 700             |
| <b>Totals</b>           | <b>\$ 590</b> | <b>\$ 6,336</b>   | <b>\$ 6,926</b> |

| <b>2007</b>             | <b>Entity</b>   | <b>Non-Entity</b> | <b>Totals</b>   |
|-------------------------|-----------------|-------------------|-----------------|
| Imprest Funds           | \$ 147          | \$ —              | \$ 147          |
| Undeposited Collections | 1,827           | 4,957             | 6,784           |
| Monetary Instruments    | —               | 250               | 250             |
| <b>Totals</b>           | <b>\$ 1,974</b> | <b>\$ 5,207</b>   | <b>\$ 7,181</b> |

Undeposited collection balances represent timing differences between when cash relating to duties, taxes, fees, and other trade-related collections are received and the deposit occurs in a future period. Cash can either be distributed to the General Fund, other federal agencies, or other governments, or returned to the importer/broker. The monetary instruments represent instruments importers/brokers provide to CBP in lieu of obtaining surety bonds.

## 5. Accounts Receivable, Net

### Receivables Due from Treasury — Refund and Drawback

Non-entity Receivables Due from Treasury represent an estimate of duty, tax, and/or fee refunds and drawbacks that will be reimbursed by a permanent and indefinite appropriation account and will be used to pay estimated duty refunds and drawbacks of \$151.2 million and \$175.9 million, as of September 30, 2008 and 2007, respectively.

### Accounts Receivable with Public, Net

As of September 30, 2008 and 2007, Accounts receivable with the public consists of reimbursable service receivables totaling \$5.6 million and \$6 million respectively, and are considered fully collectible; Customs user fee receivables total \$103.4 million and \$76 million, and are net of uncollectible amounts totaling \$2.8 million and \$3 million, respectively; Immigration user fee receivables total \$68.6 million and \$69 million, and are net of uncollectible amounts totaling \$23.1 million and \$19 million, respectively.

# Notes to Financial Statements

## 6. Tax, Duties, and Trade Receivables, Net

Receivables as of September 30, 2008 and 2007 are as follows (in thousands):

| Receivable Category                    | 2008               |                       |                       |
|--|--------------------|-----------------------|-----------------------|
|  | Gross Receivable   | Amounts Uncollectible | Total Net Receivables |
| Duties                                 | \$1,841,687        | \$ (127,777)          | \$1,713,910           |
| Excise Taxes                           | 98,978             | (5,830)               | 93,148                |
| User Fees                              | 144,799            | (4,416)               | 140,383               |
| Fines/Penalties                        | 773,692            | (732,576)             | 41,116                |
| Interest                               | 222,699            | (198,717)             | 23,982                |
| Anti-Dumping/<br>Countervailing Duties | 310,097            | (244,700)             | 65,397                |
| Refunds and Drawback                   | 453                | (377)                 | 76                    |
| <b>Totals</b>                          | <b>\$3,392,405</b> | <b>\$(1,314,393)</b>  | <b>\$2,078,012</b>    |

| Receivable Category                    | 2007               |                       |                       |
|--|--------------------|-----------------------|-----------------------|
|  | Gross Receivable   | Amounts Uncollectible | Total Net Receivables |
| Duties                                 | \$1,648,851        | \$ (115,903)          | \$1,532,948           |
| Excise Taxes                           | 126,752            | (5,652)               | 121,100               |
| User Fees                              | 132,452            | (5,164)               | 127,288               |
| Fines/Penalties                        | 1,115,645          | (1,051,246)           | 64,399                |
| Interest                               | 190,338            | (175,458)             | 14,880                |
| Anti-Dumping/<br>Countervailing Duties | 311,135            | (235,041)             | 76,094                |
| Refunds and Drawback                   | 2,062              | (1,897)               | 165                   |
| <b>Totals</b>                          | <b>\$3,527,235</b> | <b>\$(1,590,361)</b>  | <b>\$1,936,874</b>    |

CBP assesses duties, taxes, and fees on goods and merchandise brought into the United States from foreign countries. At the time importers bring merchandise into the United States, they are required to file CBP entry documents. Generally, within 10 working days after CBP releases the merchandise into the U.S. commerce, the importer is to submit an entry document with payment of estimated duties, taxes, and fees. In FY 2004, CBP began implementing periodic monthly payment that requires payment of estimated duties, taxes, and fees on the 15th work day of the month following release. A receivable of \$1.9 billion and \$1.7 billion was recorded for 923,774 entries and 887,574 entries for merchandise released into commerce on or before September 30, 2008 and 2007, respectively, of which \$1.2 billion and \$967 million related to importers using the periodic monthly payment. There were an additional 3,900 entries and 4,829 entries for merchandise released into commerce on or before September 30, 2008 and 2007, respectively, for which a receivable amount could not be determined because the entry summary documentation describing the type, quantity, and value of the merchandise had not been received from the

importers. It is CBP policy to track and demand payment of unpaid estimated duties, taxes, and fees receivable amounts by establishing a liquidated damage case, which generally results in a fine and penalty type receivable.

A fine or penalty is established when a violation of import/export law is discovered. CBP assesses a liquidated damage or penalty for these cases to the maximum extent of the law. After receiving the notice of assessment the importer or surety has 60 days to either file a petition requesting a review of the assessment or make payment of the assessed amount. Until this process has been completed, CBP records an allowance on fines and penalties of approximately 95.75 percent of the total assessment based on historical experience of fines and penalties mitigation and collection. Duties and taxes receivable are non-entity assets for which there is an offsetting liability due to the Treasury General Fund.

## 7. Inventory and Related Property, Net

### Operating Materials and Supplies

Operating Materials and Supplies (OM&S) consist of parts and materials to repair and maintain CBP aircraft and vessels used in enforcement activities. CBP defines operating materials and supplies categorized as “Excess, Obsolete, and Unserviceable” to consist of items that are obsolete and no longer useable on CBP aircraft as well as items that are useable on CBP aircraft after repair. CBP does not currently hold operating materials and supplies in reserve for future use. OM&S items that are obsolete and no longer useable were included in the \$73.3 million Aircraft total in 2007. Items that are useable on CBP aircraft after repair were not reported in FY 2007.

Operating Materials and Supplies as of September 30, 2008 and 2007 consist of the following (in thousands):

|   | 2008              | 2007             |
|---|-------------------|------------------|
| Aircraft                                  |                   |                  |
| Items Held for Use                        | \$ 86,167         | \$ 73,290        |
| Excess, Obsolete, and Unserviceable items | 8,305             | —                |
| Total Aircraft                            | 94,472            | 73,290           |
| Vessels                                   | 8,253             | 3,527            |
| <b>Totals</b>                             | <b>\$ 102,725</b> | <b>\$ 76,817</b> |

## 8. Seized and Forfeited Property

This schedule is presented for material prohibited (non-valued) seized and forfeited property only. These items are retained and ultimately destroyed by CBP and are not transferred to the Department of Treasury Forfeiture Fund or other federal agencies. The ending balance for firearms includes only those seized items that can actually be used as firearms. Illegal drugs are presented in kilograms and a portion of the weight includes packaging, which often cannot be reasonably separated from the weight of the drugs since the packaging must be maintained for evidentiary purposes. Firearms and pornography are presented in number of cases.

# Notes to Financial Statements

## Analysis of Changes in Prohibited (Non-Valued) Seized Property, September 30, 2008

| Category             | Unit of Measurement | Balance October 1 | New Seizures | Remissions | New Forfeitures | Adjustments (1) | Balance September 30 |
|----------------------|---------------------|-------------------|--------------|------------|-----------------|-----------------|----------------------|
| <b>Illegal Drugs</b> |                     |                   |              |            |                 |                 |                      |
| Cannabis (marijuana) | Kilograms           | 3,254             | 691,151      | 0          | (694,570)       | 1,202           | 1,037                |
| Cocaine              | Kilograms           | 186               | 19,924       | 0          | (19,876)        | (19)            | 215                  |
| Heroin               | Kilograms           | 20                | 5,866        | 0          | (5,878)         | 0               | 8                    |
| Ecstasy              | Kilograms           | 33                | 1,114        | 0          | (1,145)         | 31              | 33                   |
| Steroids             | Kilograms           | 136               | 393          | (10)       | (378)           | 4               | 145                  |
| <b>Firearms</b>      | Number of cases     | 1,130             | 1,444        | (870)      | (742)           | (89)            | 873                  |
| <b>Pornography</b>   | Number of cases     | 76                | 96           | (5)        | (87)            | (37)            | 43                   |

(1) Adjustments are caused by changes during the year to the beginning balances of cases. An example includes changes in the quantity from the amount reported in the beginning balance. Also, a prior year case can change legal status or property type. For example, a case considered forfeited could be re-opened and changed to seized status or a drug property type may change on a case.

## Analysis of Changes in Prohibited (Non-Valued) Seized Property, September 30, 2007

| Category             | Unit of Measurement | Balance October 1 (1) | New Seizures | Remissions | New Forfeitures | Adjustments (2) | Balance September 30 |
|----------------------|---------------------|-----------------------|--------------|------------|-----------------|-----------------|----------------------|
| <b>Illegal Drugs</b> |                     |                       |              |            |                 |                 |                      |
| Cannabis (marijuana) | Kilograms           | 737                   | 774,841      | 0          | (772,729)       | 405             | 3,254                |
| Cocaine              | Kilograms           | 353                   | 22,985       | 0          | (23,075)        | (77)            | 186                  |
| Heroin               | Kilograms           | 20                    | 5,459        | 0          | (5,463)         | 4               | 20                   |
| Ecstasy              | Kilograms           | 0                     | 1,426        | 0          | (1,393)         | 0               | 33                   |
| Steroids             | Kilograms           | 0                     | 514          | (65)       | (305)           | (8)             | 136                  |
| <b>Firearms</b>      | Number of cases     | 864                   | 1,970        | (886)      | (675)           | (143)           | 1,130                |
| <b>Pornography</b>   | Number of cases     | 101                   | 173          | (3)        | (140)           | (55)            | 76                   |

(1) Beginning balances for ecstasy and steroids are not reported in this column since this is the first year for reporting these categories. The beginning balances for ecstasy and steroids are reported in the adjustments column.

(2) Adjustments are caused by changes during the year to the beginning balances of cases. An example includes changes in the quantity from the amount reported in the beginning balance. Also, a prior year case can change legal status or property type. For example, a case considered forfeited could be re-opened and changed to seized status or a drug property type may change on a case. Beginning balances for ecstasy and steroids are reported in the adjustment column since FY 07 is the first year for reporting these categories.

## Analysis of Changes in Prohibited (Non-Valued) Forfeited Property, September 30, 2008

| Category             | Unit of Measurement | Balance October 1 | New Forfeitures | Transfers | Destroyed | Adjustments (1) | Balance September 30 |
|----------------------|---------------------|-------------------|-----------------|-----------|-----------|-----------------|----------------------|
| <b>Illegal Drugs</b> |                     |                   |                 |           |           |                 |                      |
| Cannabis (marijuana) | Kilograms           | 172,395           | 694,570         | (1,943)   | (508,918) | (239,504)       | 116,600              |
| Cocaine              | Kilograms           | 21,564            | 19,876          | (281)     | (20,803)  | 15,018          | 35,374               |
| Heroin               | Kilograms           | 6,592             | 5,878           | (11)      | (1,790)   | (3,603)         | 7,066                |
| Ecstasy              | Kilograms           | 1,867             | 1,145           | (100)     | (1,231)   | (106)           | 1,575                |
| Steroids             | Kilograms           | 13                | 378             | 0         | (355)     | 6               | 42                   |
| <b>Firearms</b>      | Number of cases     | 348               | 742             | (732)     | (8)       | 58              | 408                  |
| <b>Pornography</b>   | Number of cases     | 29                | 87              | 0         | (112)     | 23              | 27                   |

(1) Adjustments are caused by changes during the year to the beginning balances of cases. An example includes changes in the quantity from the amount reported in the beginning balance. Also, a prior year case can change legal status or property type. For example, a case considered forfeited could be re-opened and changed to seized status or a drug property type may change on a case.

## Analysis of Changes in Prohibited (Non-Valued) Forfeited Property, September 30, 2007

| Category             | Unit of Measurement | Balance October 1 (1) | New Forfeitures | Transfers | Destroyed | Adjustments (2) | Balance September 30 |
|----------------------|---------------------|-----------------------|-----------------|-----------|-----------|-----------------|----------------------|
| <b>Illegal Drugs</b> |                     |                       |                 |           |           |                 |                      |
| Cannabis (marijuana) | Kilograms           | 97,304                | 772,729         | (234,858) | (459,151) | (3,629)         | 172,395              |
| Cocaine              | Kilograms           | 19,584                | 23,075          | (156)     | (20,545)  | (394)           | 21,564               |
| Heroin               | Kilograms           | 2,221                 | 5,463           | (4)       | (1,045)   | (43)            | 6,592                |
| Ecstasy              | Kilograms           | 0                     | 1,393           | (9)       | (1,060)   | 1,543           | 1,867                |
| Steroids             | Kilograms           | 0                     | 305             | 0         | (314)     | 22              | 13                   |
| <b>Firearms</b>      | Number of cases     | 253                   | 675             | (607)     | (2)       | 29              | 348                  |
| <b>Pornography</b>   | Number of cases     | 32                    | 140             | (1)       | (195)     | 53              | 29                   |

(1) Beginning balances for ecstasy and steroids are not reported in this column since this is the first year for reporting these categories. The beginning balances for ecstasy and steroids are reported in the adjustments column.

(2) Adjustments are caused by changes during the year to the beginning balances of cases. An example includes changes in the quantity from the amount reported in the beginning balance. Also, a prior year case can change legal status or property type. For example, a case considered forfeited could be re-opened and changed to seized status or a drug property type may change on a case. Beginning balances for ecstasy and steroids are reported in the adjustment column since FY 07 is the first year for reporting these categories.



# Notes to Financial Statements

## 9. General Property, Plant and Equipment, Net

Property, Plant and Equipment as of September 30, 2008 and 2007 consist of the following (in thousands):

| Categories   | 2008                      |                     |  |                     |
|--|---------------------------|---------------------|--|---------------------|
|  | Useful Life<br>(in years) | Acquisition<br>Cost | Accumulated<br>Depreciation/<br>Amortization | Net<br>Book Value   |
| Land and Land Rights                               | N/A                       | \$ 82,687           | \$ —   | \$ 82,687           |
| Improvements to Land                               | 6–40                      | 379,500             | (70,715)                                     | 308,785             |
| Construction in Progress (a)                       | N/A                       | 999,957             | —  | 999,957             |
| Buildings, Other Structures,<br>and Facilities (b) | 6–40                      | 837,013             | (137,872)                                    | 699,141             |
| Equipment:   |                           |                     |  |                     |
| ADP Equipment                                      | 5                         | 329,937             | (206,702)                                    | 123,235             |
| Aircraft   | 12–20                     | 890,104             | (526,562)                                    | 363,542             |
| Vessels  | 5–30                      | 22,727              | (13,965)                                     | 8,762               |
| Vehicles   | 3–8                       | 383,477             | (285,091)                                    | 98,386              |
| Other Equipment                                    | 5–15                      | 863,518             | (499,428)                                    | 364,090             |
| Assets Under Capital Lease                         | 2–10                      | 9,568               | (9,568)                                      | —                   |
| Leasehold Improvements                             | 2–30                      | 216,964             | (61,385)                                     | 155,579             |
| Internal Use Software                              | 5                         | 694,877             | (543,889)                                    | 150,988             |
| Internal Use Software-in<br>Development            | N/A                       | 152,945             | —  | 152,945             |
| <b>Totals</b>                                      |                           | <u>\$ 5,863,274</u> | <u>\$ (2,355,177)</u>                        | <u>\$ 3,508,097</u> |

| 2007   |                           |                     |  |                    |
|--|---------------------------|---------------------|--|--------------------|
| Categories   | Useful Life<br>(in years) | Acquisition<br>Cost | Accumulated<br>Depreciation/<br>Amortization | Net<br>Book Value  |
| Land and Land Rights                               | N/A                       | \$ 41,493           | \$ —   | \$ 41,493          |
| Improvements to Land                               | 6–40                      | 78,449              | (35,397)                                     | 43,052             |
| Construction in Progress                           | N/A                       | 735,203             | —  | 735,203            |
| Buildings, Other Structures,<br>and Facilities (b) | 6–40                      | 612,572             | (109,968)                                    | 502,604            |
| Equipment:   |                           |                     |  |                    |
| ADP Equipment                                      | 5                         | 286,896             | (167,347)                                    | 119,549            |
| Aircraft   | 12–20                     | 825,749             | (483,296)                                    | 342,453            |
| Vessels  | 5–30                      | 22,484              | (13,661)                                     | 8,823              |
| Vehicles   | 3–8                       | 355,776             | (282,165)                                    | 73,611             |
| Other Equipment                                    | 5–15                      | 629,136             | (372,560)                                    | 256,576            |
| Assets Under Capital Lease                         | 2–10                      | 10,157              | (10,157)                                     | —                  |
| Leasehold Improvements                             | 2–30                      | 189,563             | (50,893)                                     | 138,670            |
| Internal Use Software                              | 5                         | 581,559             | (440,634)                                    | 140,925            |
| Internal Use Software-in<br>Development            | N/A                       | 110,896             | —  | 110,896            |
| <b>Totals</b>                                      |                           | <b>\$4,479,933</b>  | <b>\$(1,966,078)</b>                         | <b>\$2,513,855</b> |

(a) Includes \$697.3 million related to construction of fence on the U.S. southern border.

(b) Includes four multi-use heritage assets located in Puerto Rico with an acquisition value of \$534,000.

## 10. Stewardship PP&E

As of September 30, 2008 and 2007, CBP maintains four multi-use heritage assets located in Puerto Rico valued at \$534,000 and are fully depreciated. Heritage assets are property, plant, and equipment that have historical or national significance; cultural, educational, or artistic importance; or significant architectural characteristics. Heritage assets are generally expected to be preserved indefinitely. All multi-use heritage assets are reflected on the Consolidated Balance Sheet. Additional information for heritage assets and general PP&E is presented in the required supplementary information.

## 11. Advances and Prepayments

Intragovernmental advances and prepayments as of September 30, 2008 and 2007, totaling \$219.4 million and \$211.2 million respectively, consist of advances to UNICOR for vehicle purchases.

Advances and prepayments with the public as of September 30, 2008 and 2007, totaling \$329,000 and \$417,000 respectively, consist of employee travel and salary advances and prepaid rent.

# Notes to Financial Statements

## 12. Liabilities Not Covered by Budgetary Resources

Liabilities Not Covered by Budgetary Resources as of September 30, 2008 and 2007, consist of the following (in thousands):

|  | 2008                | 2007                |
|--|---------------------|---------------------|
| <b>Intragovernmental:</b>  |                     |                     |
| Accrued FECA Liability   | \$ 138,021          | \$ 129,558          |
| Total Intragovernmental  | 138,021             | 129,558             |
| <b>Public:</b>   |                     |                     |
| Accrued Payroll and Benefits:  |                     |                     |
| Accrued Leave (Note 13)  | 295,380             | 249,584             |
| Actuarial FECA Liability (Note 13)   | 681,664             | 618,969             |
| Environmental and Disposal Liabilities (Note 14)                             | 12,769              | 12,369              |
| Legal Contingent Liabilities   | 46,559              | 38,463              |
| Software License Agreements (Note 16)  | 32,737              | 47,680              |
| <b>Total Public</b>  | <b>1,069,109</b>    | <b>967,065</b>      |
| <b>Total Liabilities not Covered by Budgetary Resources</b>                  | <b>1,207,130</b>    | <b>1,096,623</b>    |
| <b>Total Liabilities Covered by Budgetary Resources or Non-Entity Assets</b> | <b>4,522,064</b>    | <b>4,432,436</b>    |
| <b>Total Liabilities</b>   | <b>\$ 5,729,194</b> | <b>\$ 5,529,059</b> |

Liabilities not covered by budgetary or other resources represent amounts owed in excess of available appropriated or other amounts. The liquidation of liabilities not covered by budgetary or other resources is dependent on future congressional appropriations.

## 13. Accrued Payroll and Benefits

The payroll and benefits liability as of September 30, 2008 and 2007 consists of the following (in thousands):

|                                     | 2008                | 2007                |
|-------------------------------------|---------------------|---------------------|
| Accrued Funded Payroll and Benefits | \$ 237,551          | \$ 163,004          |
| Accrued Unfunded Leave              | 295,380             | 249,584             |
| Actuarial FECA Liability            | 681,664             | 618,969             |
| <b>Total</b>                        | <b>\$ 1,214,595</b> | <b>\$ 1,031,557</b> |

Actuarial workers compensation liability claims incurred for the benefit of CBP employees under FECA are administered by DOL and are ultimately paid by CBP. Future workers' compensation estimates are generated from an application of actuarial procedures developed by the DOL.

## 14. Environmental & Disposal Liabilities

CBP is required to remediate contamination in accordance with Federal laws in order to protect human health and the environment. These laws include the Comprehensive Environmental Response, Compensation and Liability Act, the Resource Conservation and Recovery Act, the Oil Pollution Act, the Clean Water Act, the Toxic Substances Control Act, and the Clean Air Act.

Estimated environmental liabilities include expected future cleanup costs and those associated with site characterization, sampling, risk assessment, removal of contamination sources, treatment, containment, and monitoring. These costs are recognized and disclosed in accordance with SFFAS No. 5, SFFAS No. 6, and Technical Release No. 2. CBP records the estimated cost of environmental liabilities that are probable and measurable to the current operating period. For those probable sites where future liability is unknown or no reasonable estimate of the cost to clean up a particular site could be made, the cost of studies necessary to evaluate response or remediation requirements is reported.

CBP's environmental cleanup liability as of September 30, 2008 and 2007 was \$12.8 million and \$12.4 million, respectively. There were no material changes in total estimated cleanup costs due to changes in law or technology. Notable changes in estimated liabilities include:

- Estimates of liability are presented in FY08 dollars and have been appropriately escalated to account for inflation.
- CBP is in the process of implementing the accounting requirements of Federal Accounting Standards Advisory Board, *Technical Bulletin 2006-1: Recognition and Measurement of Asbestos-Related Cleanup Costs* (September 28, 2006). This reference requires estimating asbestos-related cleanup costs for both non-friable and friable asbestos-containing materials.
- Small arms firing ranges are no longer included in the total estimate of financial liability. It is reasonably possible that ranges constitute a future liability and will be managed to ensure an accurate statement of any probable liabilities is included when appropriate.
- An estimate of the future cleanup costs for removal of CBP-owned underground storage tanks has been included in the total estimate of financial liability.
- • CBP has determined probable cleanup costs associated with lead-based paint are not reasonably measurable due to insufficient information on the nature or extent of lead-based paint. Further, using a cost to perform the necessary studies as the minimum amount of the liability, total costs for the lead-based paint cleanup are not considered material and are not included in CBP's total environmental financial liability.

## 15. Other Liabilities

CBP considers all Other Liabilities as current.

Other Intragovernmental Liabilities consist of Employee Benefits and Taxes of \$62.5 million and \$42.3 million, and Advances from Others of \$15.1 million and \$9.4 million as of September 30, 2008 and 2007, respectively.

# Notes to Financial Statements

Other Public Liabilities consist of the following:

## Refunds Payable

Refunds Payable consists of amounts owed for refunds of duty and other trade-related activity and drawback claims. These liabilities, all considered current year liabilities, are principally funded from the Refunds and Drawback account.

CBP accrues a liability for refunds and drawback claims approved at year-end, but paid subsequent to year-end. Payments made to importers/exporters are primarily identified when the import entry is liquidated, a process in which CBP makes a final determination of duties, taxes, and fees owed on the entry. Due to non-liquidation of the entries, the amount to be refunded is undetermined. Therefore, a historical calculated average was used to determine a ratio for estimating the payable to be recorded. Using this average, CBP has estimated \$39.9 million and \$32.4 million as of September 30, 2008 and 2007, respectively, as a payable.

The September 30, 2008 and 2007, accrued liability consists of the following (in thousands):

|                 | <b>2008</b>       | <b>2007</b>       |
|-----------------|-------------------|-------------------|
| Refunds         | \$ 72,921         | \$ 91,167         |
| Drawback claims | 57,099            | 39,886            |
| <b>Total</b>    | <b>\$ 130,020</b> | <b>\$ 131,053</b> |

## Injured Domestic Industries

The Continued Dumping and Subsidy Offset Act of 2000, P.L. 106-387, Title X, enacted in FY 2001 calls for CBP to disburse monies received in connection with antidumping and countervailing (AD/CV) duty orders and findings to qualifying injured domestic industries. During FY 2008 and 2007, CBP liquidated \$395.5 million and \$388.1 million, respectively in AD/CV duty and recorded the liability.

## 16. Leases

### Software License Agreements

CBP has a software license fee agreement for a mainframe software license. The liability associated with this software license agreement is reflected on the accompanying Consolidated Balance Sheet based upon the present value of the future minimum license agreement payments. As of September 30, 2008 and 2007, the aggregate capitalized cost of the agreement still subject to lease is \$152.2 million. This agreement is included in capitalized software.

As of September 30, 2008 (in thousands:)

|  | <b>2008</b>             |                                 |                       |
|--|-------------------------|---------------------------------|-----------------------|
| <b>Summary of Assets Acquired through Capital Lease:</b> | <b>Acquisition Cost</b> | <b>Accumulated Depreciation</b> | <b>Net Book Value</b> |
| Personal Property (Software & Equipment)                 | \$ 161,814              | \$ (122,560)                    | \$ 39,254             |

As of September 30, 2007 (in thousands:)

|  | <b>2007</b>             |                                 |                       |
|--|-------------------------|---------------------------------|-----------------------|
| <b>Summary of Assets Acquired through Capital Lease:</b> | <b>Acquisition Cost</b> | <b>Accumulated Depreciation</b> | <b>Net Book Value</b> |
| Personal Property (Software & Equipment)                 | \$ 162,403              | \$ (108,020)                    | \$ 54,383             |

Future minimum payments for cancelable commercial off-the-shelf license agreement and the present value of the minimum license agreement payments as of September 30, 2008, are as follows (in thousands):

| <b>Fiscal Year</b>  | <b>2008</b>      |
|---|------------------|
| 2009  | \$ 17,981        |
| 2010  | 17,981           |
| 2011  | —                |
| 2012  | —                |
| 2013  | —                |
| Beyond 2013   | —                |
| <b>Total Future Minimum License</b>                           | <b>35,962</b>    |
| Less: Imputed Interest  | (3,225)          |
| <b>Total Net Present Value of Software License Agreements</b> | <b>\$ 32,737</b> |

The net present value of the cancelable software license agreement is expected to be funded from future sources.

## Operating Leases

CBP leases various facilities and equipment under leases accounted for as operating leases. The leased items consist of offices, warehouses, vehicles, and other equipment. Much of the office space occupied by CBP is either owned by the Federal Government or is leased by the General Services Administration (GSA) from commercial sources. CBP is not committed to continue to pay rent to GSA beyond the period occupied providing proper advance notice to GSA unless the rental agreement is non-cancelable. It is expected that CBP will continue to occupy and lease office space from GSA in future years.

The following schedule, by years, shows the future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of 1 year, as of September 30, 2008 (in thousands):



# Notes to Financial Statements

| <b>Fiscal Year</b>                 | <b>Facilities</b> |
|------------------------------------|-------------------|
| 2009                               | \$ 53,167         |
| 2010                               | 53,167            |
| 2011                               | 53,167            |
| 2012                               | 53,167            |
| 2013                               | 41,378            |
| Beyond 2013                        | 206,499           |
| <b>Total Future Lease Payments</b> | <b>\$ 460,545</b> |

## 17. Commitments and Contingencies

### Legal Contingent Liabilities

CBP is party to various administrative proceedings, legal actions, and claims brought by or against it. Any financially unfavorable administrative or court decision will normally be funded from: (1) CBP appropriation for refunds and drawback for trade litigation issues; (2) various claims and judgment funds maintained by Treasury; or (3) CBP salary and expense appropriation.

The range of estimated contingent liabilities for all probable and estimable litigation related claims as of September 30, 2008 and 2007 were \$59.6 million to \$148.9 million and \$83.5 million to \$170.3 million, respectively. Of these amounts, \$13 million and \$45 million as of September 30, 2008 and 2007, respectively, were funded from appropriations for the Refund and Drawback Account. Asserted and pending legal claims for which loss is reasonably possible range from an estimated at \$517.7 million to \$658.6 million and \$34.5 million to \$373.8 million as of September 30, 2008 and 2007 respectively. As of September 30, 2008, CBP had nine cases considered reasonably possible and two cases considered probable for which no estimate could be made.

### Duty and Trade Refunds

There are various other trade issues resolved by other federal agencies, such as the Department of Commerce, which may result in refunds of duties, taxes, and fees from the Refunds and Drawback Account. Until such time as a decision is reached by the other federal agencies, CBP does not have sufficient information to estimate a contingent liability amount. All known refunds as of September 30, 2008 and 2007 have been recorded.

### Loaned Aircraft

CBP is generally liable to the Department of Defense for damage or loss to aircraft on loan. CBP had 16 aircraft loaned from Department of Defense with an acquisition value of \$94.4 million, as of September 30, 2008 and 2007.

## 18. Earmarked Funds

### **Consolidated Omnibus Budget Reconciliation Act (COBRA)**

In April 1986, the President signed the Consolidated Omnibus Budget Reconciliation Act (COBRA) of 1985, which authorized the Customs and Border Protection (CBP) to collect user fees for certain services. The law initially established processing fees for air and sea passengers, commercial trucks, rail cars, private vessels and aircraft, commercial vessels, dutiable mail packages, and CBP broker permits. An additional fee category, contained in tax reform legislation, for processing barges and bulk carriers for Canada and Mexico, was added later that year. The collection of the COBRA fees for CBP services began on July 7, 1986.

In addition to the collection of user fees, other changes in CBP procedures were enacted due to the COBRA statute. Most importantly, provisions were included for providing non-reimbursable inspectional overtime services and paying for excess pre-clearance costs from the COBRA user fee collections.

The Customs and Trade Act of 1990 amended the COBRA legislation to provide for the hiring of inspectional personnel, the purchasing of equipment, and the covering of related expenses with any surplus monies available, after overtime and excess pre-clearance costs are satisfied. Expenditures from the surplus can only be used to enhance the service provided to those functions for which fees are collected. This legislation took effect on October 1, 1990.

19 USC Section 58c contains the Fees for certain Customs services. The authority to use these funds is contained in the annual Department of Homeland Security Appropriations Act.

### **Immigration User Fees (IUF)**

Joint Resolution (H.J. Res. 738), making continuing appropriations for FY 1987 (the “1987 Act”) (Public Laws 99-500 and 99-591), established the Immigration User Fee Account (IUFA) [requiring] the [collection] of a \$5.00 fee charged to each passenger arriving in the United States from foreign locations aboard commercial aircraft and commercial vessels except passengers whose journeys originated in the United States, Canada, Mexico, a territory or possession of the United States, or an adjacent island. The 1987 Act directed the [INS] Service, beginning in FY 1987, to collect an immigration user fee for each passenger arriving in the United States by commercial air or sea conveyance (with limited exceptions). This law was codified in 8 U.S.C. 1103, 1356, section 286, the Immigration and Nationality Act (INA).

In 1993, Congress amended section 286 of the INA by raising the immigration user fee from the original \$5 to \$6 with the passage of Public Law 103-121. In 2002, in Public Law 107-77, Congress increased the immigration user fee from \$6 to \$7.

Also in Public Law 107-77, Congress amended section 286(e) of the INA to authorize the Attorney General to charge and collect a user fee from certain previously exempt commercial vessel passengers. Prior to the enactment of this law, commercial vessel passengers whose journeys originated in Canada; Mexico; a State, territory, or possession of the United States; or an adjacent island, were statutorily exempt from paying the Immigration User Fee prescribed by section 286(d) of the INA. While these vessel passengers were exempt from paying the fee, the [INS] Service was still required to provide inspection services.

# Notes to Financial Statements

The IUFA was also established as a repository for fines imposed to prevent unauthorized landing and unlawful bringing of aliens in to the United States, penalties for document fraud, 31 Act overtime, and liquidated damages and expenses collected. All deposits into the IUFA are available until expended.

In FY 2003 with the formation of the DHS, CBP collects and shares the revenue from the immigration user fees with Immigration and Customs Enforcement (ICE). CBP maintains approximately 83% of the user fee, while the other 17% is turned over to ICE.

The following tables present condensed data relating to CBP earmarked funds (disclosed in note 1) as of and for the years ended September 30, 2008 and 2007 (in thousands):

|  | 2008              |                   |                   |                     |
|--|-------------------|-------------------|-------------------|---------------------|
| <b>Balance Sheet</b>                       | <b>COBRA</b>      | <b>IUF</b>        | <b>All Others</b> | <b>Total</b>        |
| <b>Assets</b>                              |                   |                   |                   |                     |
| Fund Balance with Treasury                 | \$ 767,723        | \$ 128,248        | \$ 15,585         | \$ 911,556          |
| Tax, Duties, & Trade Receivables, Net      | 75,530            | —                 | 31                | 75,561              |
| Other Assets                               | 103,964           | 68,615            | 719               | 173,298             |
| Total Assets                               | <u>\$ 947,217</u> | <u>\$ 196,863</u> | <u>\$ 16,335</u>  | <u>\$ 1,160,415</u> |
| <b>Liabilities and Net Position</b>        |                   |                   |                   |                     |
| Liabilities                                | \$ 99,980         | \$ —              | \$ 3,219          | \$ 103,199          |
| Cumulative Results of Operations           | 847,237           | 196,863           | 13,116            | 1,057,216           |
| Total Liabilities and Net Position         | <u>\$ 947,217</u> | <u>\$ 196,863</u> | <u>\$ 16,335</u>  | <u>\$ 1,160,415</u> |
| <b>Statement of Net Cost</b>               |                   |                   |                   |                     |
| Gross Cost                                 | \$ 375,535        | \$ 615,007        | \$ 41,340         | \$ 1,031,882        |
| Less: Earned Revenue                       | 57                | —                 | 2,534             | 2,591               |
| Net Cost of Operations                     | <u>\$ 375,478</u> | <u>\$ 615,007</u> | <u>\$ 38,806</u>  | <u>\$ 1,029,291</u> |
| <b>Statement of Change in Net Position</b> |                   |                   |                   |                     |
| Net Position Beginning of Period           | \$ 787,717        | \$ 229,670        | \$ 10,089         | \$ 1,027,476        |
| Net Costs of Operations                    | (375,478)         | (615,007)         | (38,806)          | (1,029,291)         |
| Non Exchange Revenue                       | 1,925,373         | 703,988           | 41,834            | 2,671,195           |
| Net Transfers In/Out                       | (1,490,376)       | (121,788)         | —                 | (1,612,164)         |
| Change in Net Position                     | <u>59,519</u>     | <u>(32,807)</u>   | <u>3,028</u>      | <u>29,740</u>       |
| Net Position End of Period                 | <u>\$ 847,236</u> | <u>\$ 196,863</u> | <u>\$ 13,117</u>  | <u>1,057,216</u>    |

## Notes to Financial Statements

|  | 2007               |                   |                   |                     |
|--|--------------------|-------------------|-------------------|---------------------|
| <b>Balance Sheet as of September 30</b>                                      | <b>COBRA</b>       | <b>IUF</b>        | <b>All Others</b> | <b>Total</b>        |
| <b>Assets</b>  |                    |                   |                   |                     |
| Fund Balance with Treasury   | \$ 729,957         | \$ 159,119        | \$ 12,193         | \$ 901,269          |
| Tax, Duties, and Trade Receivables, Net                                      | 68,452             | —                 | 28                | 68,480              |
| Other Assets   | 76,394             | 70,565            | 202               | 147,161             |
| Total Assets   | <u>\$ 874,803</u>  | <u>\$ 229,684</u> | <u>\$ 12,423</u>  | <u>\$ 1,116,910</u> |
| <b>Liabilities and Net Position for the Period Ended September 30</b>        |                    |                   |                   |                     |
| Liabilities  | \$ 87,086          | \$ 14             | \$ 2,334          | \$ 89,434           |
| Cumulative Results of Operations   | <u>787,717</u>     | <u>229,670</u>    | <u>10,089</u>     | <u>1,027,476</u>    |
| Total Liabilities and Net Position   | <u>\$ 874,803</u>  | <u>\$ 229,684</u> | <u>\$ 12,423</u>  | <u>\$ 1,116,910</u> |
| <b>Statement of Net Cost for the Period Ended September 30</b>               |                    |                   |                   |                     |
| Gross Cost   | \$ 369,300         | \$ 524,361        | \$ 45,521         | \$ 939,182          |
| Less Earned Revenue  | —                  | —                 | (1,936)           | (1,936)             |
| Net Cost of Operations   | <u>\$ 369,300</u>  | <u>\$ 524,361</u> | <u>\$ 43,585</u>  | <u>\$ 937,246</u>   |
| <b>Statement of Change in Net Position for the Period Ended September 30</b> |                    |                   |                   |                     |
| Net Position Beginning of Period   | \$ 798,750         | \$ 280,437        | \$ 15,455         | \$ 1,094,642        |
| Net Costs of Operations  | (369,300)          | (524,361)         | (43,585)          | (937,246)           |
| Non Exchange Revenue   | 1,808,332          | 575,188           | 38,268            | 2,421,788           |
| Net Transfers In/Out   | <u>(1,450,065)</u> | <u>(101,594)</u>  | <u>(49)</u>       | <u>(1,551,708)</u>  |
| Change in Net Position   | <u>(11,033)</u>    | <u>(50,767)</u>   | <u>(5,366)</u>    | <u>(67,166)</u>     |
| Net Position End of Period   | <u>\$ 787,717</u>  | <u>\$ 229,670</u> | <u>\$ 10,089</u>  | <u>\$ 1,027,476</u> |

### 19. Intragovernmental Costs and Exchange Revenue

Intragovernmental costs represent exchange transactions made between two reporting entities within the Federal Government and are presented separately from costs with the public (exchange transactions made between the reporting entity and a non-federal entity). Intragovernmental exchange revenue is disclosed separately from exchange revenue with the public. The criteria used for this classification requires that the intragovernmental expenses relate to the source of goods and services purchased by the reporting entity and not to the classification of related revenue. With intragovernmental costs, the buyer and seller are both federal entities. If a federal entity purchases goods or services from another federal entity and sells them

# Notes to Financial Statements

to the public, the exchange revenue would be classified as “with the public,” but the related costs would be classified as intragovernmental. The purpose of this classification is to enable the Federal Government to provide consolidated financial statements, and not to match public and intragovernmental revenue with costs that are incurred to produce public and intragovernmental revenue.

The Consolidated Statement of Net Cost reflects intragovernmental and public cost and exchange revenue as summarized below for the years ended September 30, 2008 and 2007 (in thousands):

|   | <b>2008</b>         | <b>2007</b>         |
|---|---------------------|---------------------|
| <b>Border Security Inspections and Trade Facilitation at Ports of Entry</b>               |                     |                     |
| Intragovernmental Costs   | \$ 1,550,794        | \$ 1,381,449        |
| Public Costs  | 4,323,019           | 3,758,826           |
| <b>Total Border Security Inspections and Trade Facilitation at Ports of Entry Costs</b>   | <b>5,873,813</b>    | <b>5,140,275</b>    |
| Less: Intragovernmental Earned Revenue  | 142,013             | 135,051             |
| Less: Public Earned Revenue   | 62,188              | 68,428              |
| <b>Total Border Security Inspections and Trade Facilitation at Ports of Entry Revenue</b> | <b>204,201</b>      | <b>203,479</b>      |
| <b>Border Security and Control Between Ports of Entry</b>                                 |                     |                     |
| Intragovernmental Costs   | 962,616             | 764,479             |
| Public Costs  | 2,683,405           | 2,080,091           |
| <b>Total Border Security and Control Between Ports of Entry Costs</b>                     | <b>3,646,021</b>    | <b>2,844,570</b>    |
| Less: Intragovernmental Earned Revenue  | 88,151              | 74,736              |
| Less: Public Earned Revenue   | 38,602              | 37,868              |
| <b>Total Border Security and Control Between Ports of Entry Revenue</b>                   | <b>126,753</b>      | <b>112,604</b>      |
| <b>Air and Marine Operations</b>  |                     |                     |
| Intragovernmental Costs   | 112,384             | 99,236              |
| Public Costs  | 313,283             | 270,015             |
| <b>Total Air and Marine Operations Costs</b>  | <b>425,667</b>      | <b>369,251</b>      |
| Less: Intragovernmental Earned Revenue  | 10,291              | 9,701               |
| Less: Public Earned Revenue   | 4,507               | 4,916               |
| <b>Total Air and Marine Operations Revenue</b>  | <b>14,798</b>       | <b>14,617</b>       |
| <b>Net Cost of Operations</b>   | <b>\$ 9,599,749</b> | <b>\$ 8,023,396</b> |

## 20. Sub-organization Program Costs/Program Costs by Segment

CBP is the unified border agency whose priority mission is the prevention of terrorism and terrorist weapons from entering the U.S. CBP meets these responsibilities by (1) enforcing the laws governing the flow of merchandise or commerce across the borders of the U.S.; (2) assessing and collecting duties, taxes, and fees on imported and other goods and services; and (3) enforcing drug-related and other laws and regulations of the U.S. on behalf of federal agencies and/or in conjunction with various state, local agencies, and foreign countries.

Operating costs are summarized in the Consolidated Statement of Net Cost by mission or major line of activity, as applicable to the reporting period. The net cost of operations is the gross (i.e., total) cost incurred by CBP, less any exchange (i.e., earned) revenue.

For the year ended September 30, 2008 (in thousands):

| Schedule of Net Cost by Program and Responsibility Segment                  | 2008                                     |                           |                     |
|---|--|---------------------------|---------------------|
|   | Protect Our Nation from Dangerous People | Intra-Entity Eliminations | Consolidated Total  |
| <b>Border Security Inspections and Trade Facilitation at Ports of Entry</b> |  |                           |                     |
| Gross Costs:  |  |                           |                     |
| Passenger Processing  | \$ 3,425,181                             | \$ 405,727                | \$ 3,019,454        |
| Trade Compliance  | 2,432,375                                | 288,125                   | 2,144,250           |
| Outbound  | 111,691                                  | 13,230                    | 98,461              |
| Anti-Terrorism  | 693,836                                  | 82,188                    | 611,648             |
| Total Gross Costs   | 6,663,083                                | 789,270                   | 5,873,813           |
| Less: Earned Revenue  | 993,471                                  | 789,270                   | 204,201             |
| Net Program Costs   | \$ 5,669,612                             | \$ —                      | \$ 5,669,612        |
| <b>Border Security and Control Between Ports of Entry</b>                   |  |                           |                     |
| Gross Costs   | \$ 4,135,940                             | \$ 489,919                | \$ 3,646,021        |
| Less: Earned Revenue  | 616,672                                  | 489,919                   | 126,753             |
| Net Program Costs   | \$ 3,519,268                             | \$ —                      | \$ 3,519,268        |
| <b>Air and Marine Operations</b>  |  |                           |                     |
| Gross Costs   | \$ 482,865                               | \$ 57,198                 | \$ 425,667          |
| Less: Earned Revenue  | 71,996                                   | 57,198                    | 14,798              |
| Net Program Costs   | 410,869                                  | —                         | 410,869             |
| <b>Net Cost of Operations</b>   | <b>\$ 9,599,749</b>                      | <b>\$ —</b>               | <b>\$ 9,599,749</b> |



# Notes to Financial Statements

For the year ended September 30, 2007 (in thousands):

| Schedule of Net Cost by Program and Responsibility Segment                  | 2007   |                              |                       |
|---|--|------------------------------|-----------------------|
|   | Protect Our Nation<br>from Dangerous<br>People | Intra-Entity<br>Eliminations | Consolidated<br>Total |
| <b>Border Security Inspections and Trade Facilitation at Ports of Entry</b> |  |                              |                       |
| Gross Costs:  |  |                              |                       |
| Passenger Processing  | \$ 3,012,224                                   | \$ 385,696                   | \$ 2,626,528          |
| Trade Compliance  | 2,162,401                                      | 276,882                      | 1,885,519             |
| Outbound  | 94,851   | 12,145                       | 82,706                |
| Anti-Terrorism  | 625,630  | 80,108                       | 545,522               |
| Total Gross Costs   | 5,895,106                                      | 754,831                      | 5,140,275             |
| Less: Earned Revenue  | 958,310  | 754,831                      | 203,479               |
| Net Program Costs   | \$ 4,936,796                                   | \$ —                         | \$ 4,936,796          |
| <b>Border Security and Control Between Ports of Entry</b>                   |  |                              |                       |
| Gross Costs   | \$ 3,262,284                                   | \$ 417,714                   | \$ 2,844,570          |
| Less: Earned Revenue  | 530,318  | 417,714                      | 112,604               |
| Net Program Costs   | \$ 2,731,966                                   | \$ —                         | \$ 2,731,966          |
| <b>Air and Marine Operations</b>  |  |                              |                       |
| Gross Costs   | \$ 423,474                                     | \$ 54,223                    | \$ 369,251            |
| Less: Earned Revenue  | 68,840   | 54,223                       | 14,617                |
| Net Program Costs   | 354,634  | —                            | 354,634               |
| <b>Net Cost of Operations</b>   | <b>\$ 8,023,396</b>                            | <b>\$ —</b>                  | <b>\$ 8,023,396</b>   |

## 21. Non-Exchange Revenues and Transfers In/Out Without Reimbursement

Non-exchange Revenue represents amounts collected from user fees that CBP may retain and expend as authorized by law. Transfers In/Out Without Reimbursement are amounts of funds collected and transferred from CBP receipt accounts to expenditure accounts within CBP and to other federal agencies.

## 22. Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations

Apportionment categories are determined in accordance with the guidance provided in OMB Circular A-11, *Preparation, Submission and Execution of the Budget*. Category A represents resources apportioned for calendar quarters. Category B represents resources apportioned for other time periods; for activities, projects, or objectives; or for any combination thereof (in thousands).

| <b>FY Ended September 30, 2008</b>    | <b>Apportionment<br/>Category A</b> | <b>Apportionment<br/>Category B</b> | <b>Exempt from<br/>Apportionment</b> | <b>Total</b>         |
|---------------------------------------|-------------------------------------|-------------------------------------|--------------------------------------|----------------------|
| Obligations Incurred—Direct           | \$ 6,532,724                        | \$ 5,357,264                        | \$ 972,988                           | \$ 12,862,976        |
| Obligations Incurred—<br>Reimbursable | 1,622,088                           | 141,443                             | —                                    | 1,763,531            |
| <b>Total Obligations Incurred</b>     | <b>\$ 8,154,812</b>                 | <b>\$ 5,498,707</b>                 | <b>\$ 972,988</b>                    | <b>\$ 14,626,507</b> |

| <b>FY Ended September 30, 2007</b>    | <b>Apportionment<br/>Category A</b> | <b>Apportionment<br/>Category B</b> | <b>Exempt from<br/>Apportionment</b> | <b>Total</b>         |
|---------------------------------------|-------------------------------------|-------------------------------------|--------------------------------------|----------------------|
| Obligations Incurred—Direct           | \$ 6,008,329                        | \$ 3,482,777                        | \$ 1,543,665                         | \$ 11,034,771        |
| Obligations Incurred—<br>Reimbursable | 1,384,488                           | 102,195                             | —                                    | 1,486,683            |
| <b>Total Obligations Incurred</b>     | <b>\$ 7,392,817</b>                 | <b>\$ 3,584,972</b>                 | <b>\$ 1,543,665</b>                  | <b>\$ 12,521,454</b> |

## 23. Appropriations

As of September 30, 2008 and 2007, the Combined Statements of Budgetary Resources consist of appropriations totaling \$12 billion and \$11.2 billion, respectively. This differs from the Consolidated Statements of Changes in Net Position as of September 30, 2008 and 2007, which consist of appropriations received totaling \$7.9 billion and \$6.7 billion, respectively. This difference is due to CBP's non-entity activity, which as of September 30, 2008 and 2007 consists of \$1.4 billion and \$2 billion, respectively, for Refund and Drawback activity as well as \$2.7 billion and \$2.5 billion, respectively, for user/inspection fees and subsidy activity, which are not reported on the Consolidated Statements of Changes in Net Position.

Permanent indefinite appropriations refer to the appropriations that result from permanent public laws, which authorize CBP to retain certain receipts. The amount appropriated depends upon the amount of the receipts rather than on a specific amount. CBP has a permanent and indefinite appropriation, which is used to disburse tax and duty refunds and duty drawbacks. Although funded through an appropriation, refund and drawback activity is, in most instances, reported as a custodial activity. Refunds are custodial revenue-related activity in that refunds are a direct result of importer overpayments of duties, taxes, and fees. Federal tax revenue received from taxpayers is not available for use in the operation of CBP and is not reported on the Consolidated Statements of Net Cost. Likewise, the refunds of overpayments are not available for use by CBP in its operations. Refunds and drawback disbursements totaled \$1.3 billion and \$6.9 billion for fiscal year ended September 30, 2008 and 2007, and are presented as a use of custodial revenue on the Consolidated Statements of Custodial Activity. This appropriation is not subject to budgetary ceilings established by Congress. CBP's refund payable at year-end is not subject to funding restrictions. Refund payment funding is recognized as appropriations are used.

## 24. Legal Arrangements Affecting the Use of Unobligated Balances

Unobligated balances, whose period of availability has expired, are not available to fund new obligations. Expired unobligated balances are available to pay for current period adjustments to obligations incurred prior to expiration. For a fixed appropriation account, the balance can be carried forward for 5 fiscal years after the period of availability ends. For a no-year account, the unobligated balance is carried forward

indefinitely until (1) specifically rescinded by law; or (2) the head of the agency concerned or the President determines that the purposes for which the appropriation was made have been carried out and disbursements have not been made against the appropriation for two consecutive years.

Included in the cumulative results of operations for special funds is \$1.1 billion at September 30, 2008, that represents CBP's authority to assess and collect user fees relating to merchandise and passenger processing, to assess and collect fees associated with the services performed at certain small airports or other facilities, retain amounts needed to offset costs associated with collecting duties, and taxes, and fees for the government of Puerto Rico. These special fund balances are restricted by law and in their use to offset specific costs incurred by CBP. Part of the passenger fees in the COBRA User Fee Account, totaling approximately \$734 million, as of September 30, 2008, is restricted by law in its use to offset specific costs incurred by CBP and are available to the extent provided in Department Appropriations Acts.

The entity trust fund balances result from CBP's authority to use the proceeds from general order items sold at auction to offset specific costs incurred by CBP relating to their sale, to use available funds in the Salaries and Expense Fund to offset specific costs for expanding border and port enforcement activities, and to use available funds from the Harbor Maintenance Trust Fund to offset administrative expenses related to the collection of the Harbor Maintenance Fee.

### **25. Explanation of Differences Between the SBR and the Budget of the U.S. Government**

The table below documents the material differences between the FY 2007 Combined Statement of Budgetary Resources and the actual amounts reported for FY 2007 in the Budget of the United States Government. Since the FY 2008 financial statements are reported prior to the Budget of the United States Government, CBP is reporting for FY 2007 only. Typically, the Budget of the United States Government with the FY 2008 actual data is published in February of the subsequent year. Once published, the FY 2008 actual data will be available at OMB website, [www.whitehouse.gov/omb](http://www.whitehouse.gov/omb) (in thousands):

| <b>2007</b>  | <b>Budgetary Resources</b> | <b>Obligations Incurred</b> | <b>Distributed Offsetting Receipts</b> | <b>Net Outlays</b> |
|--|----------------------------|-----------------------------|--|--------------------|
| Combined Statement of Budgetary Resources  | \$ 15,416,359              | \$ 12,521,454               | \$ 2,360,600                           | \$ 7,479,121       |
| Differences:   |                            |                             |  |                    |
| Expired Appropriation not Included in President's Budget                         | (99,136)                   | (35,204)                    | —                                      | —                  |
| Refunds & Drawbacks not Included in President's Budget                           | (1,537,975)                | (1,537,975)                 | —                                      | (1,537,980)        |
| Injured Domestic Industries not Included in President's Budget (20X5688)         | (954,266)                  | (380,563)                   | —                                      | (380,563)          |
| Offsetting Receipts Included in Treasury Annual Report but not in Column C Above | —                          | —                           | 24,754                                 | 2,360,600          |
| Miscellaneous  | (31,342)                   | —                           | —                                      | —                  |
| Total Differences  | (2,622,719)                | (1,953,742)                 | 24,754                                 | 442,057            |
| Budget of the U.S. Government  | \$ 12,793,640              | \$ 10,567,712               | \$ 2,385,354                           | \$ 7,921,178       |

## 26. Undelivered Orders at the End of Period

An undelivered order exists when a valid obligation has occurred and funds have been reserved, but the goods or services have not been delivered and have not been prepaid. Undelivered orders for the period ended September 30, 2008 and 2007 (in thousands):

|  | <b>2008</b>         | <b>2007</b>         |
|--|---------------------|---------------------|
| Unpaid   | \$ 4,364,976        | \$ 3,012,252        |
| Upward/Downward Adjustment of Prior Period           | (426,722)           | (176,264)           |
| <b>Total Undelivered Orders at the End of Period</b> | <b>\$ 3,938,254</b> | <b>\$ 2,835,988</b> |

## 27. Custodial Revenues

Custodial Revenue consists of duties, user fees, fines and penalties, refunds and drawback overpayments, and interest associated with import/export activity that have been established as a specifically identifiable, legally enforceable claim and remain uncollected as of year-end. These receivables are net of amounts deemed uncollectible, which were determined by considering the debtor's payment record and willingness to pay, the probable recovery of amounts from secondary sources, such as sureties and an analysis of aged receivable activity. Primarily, revenue collections result from current fiscal year activity.

## Notes to Financial Statements

Disbursements from the Refunds and Drawback account for the fiscal year ended September 30, 2008 and 2007 (in thousands):

|              | <b>2008</b>         | <b>2007</b>         |
|--------------|---------------------|---------------------|
| Refunds      | \$ 620,407          | \$ 6,296,311        |
| Drawback     | 675,298             | 625,723             |
| <b>Total</b> | <b>\$ 1,295,705</b> | <b>\$ 6,922,034</b> |

Amounts refunded during FY 2008 and 2007 identified by entry year consist of the following (in thousands):

| <b>Entry Year</b> | <b>2008</b>         |
|-------------------|---------------------|
| 2008              | \$ 815,098          |
| 2007              | 162,254             |
| 2006              | 54,267              |
| 2005              | 26,350              |
| Prior Years       | 237,736             |
| <b>Total</b>      | <b>\$ 1,295,705</b> |

| <b>Entry Year</b> | <b>2007</b>         |
|-------------------|---------------------|
| 2007              | \$ 5,531,472        |
| 2006              | 221,733             |
| 2005              | 326,968             |
| 2004              | 363,025             |
| Prior Years       | 478,836             |
| <b>Total</b>      | <b>\$ 6,922,034</b> |

The total amounts of antidumping and countervailing duties vary from year to year, depending on decisions from Department of Commerce. Antidumping and countervailing duty refunds (included in total refunds presented above) and associated interest refunded for the fiscal years ended September 30, 2008 and 2007, consisted of the following (in thousands):

|   | <b>2008</b>      | <b>2007</b>         |
|---|------------------|---------------------|
| Antidumping and Countervailing Duty Refunds | \$ 16,122        | \$ 5,033,930        |
| Interest                                    | 775              | 654,672             |
| <b>Total</b>                                | <b>\$ 16,897</b> | <b>\$ 5,688,602</b> |

## 28. Reconciliation of Net Cost of Operations to Budget

The following table presents CBP's reconciliation of net cost of operations to budgetary accounts for the years ended September 30, 2008 and 2007 (in thousands):

|   | <b>2008</b>          | <b>2007</b>         |
|---|----------------------|---------------------|
| <b>Resources Used to Finance Activities:</b>  |                      |                     |
| <b>Budgetary Resources Obligated</b>  |                      |                     |
| Obligations Incurred  | \$ 14,626,507        | \$ 12,521,454       |
| Less: Spending Authority from Offsetting Collections and Recoveries                                     | 2,060,855            | 1,659,029           |
| Obligations Net of Offsetting Collections and Recoveries  | 12,565,652           | 10,862,425          |
| Less: Offsetting Receipts   | 2,633,691            | 2,360,600           |
| Net Obligations   | 9,931,961            | 8,501,825           |
| <b>Other Resources</b>  |                      |                     |
| Donations and Forfeiture of Property  | 14,002               | 3,618               |
| Transfers In/Out Without Reimbursement  | 131,719              | 3,509               |
| Imputed Financing from Costs Absorbed by Others   | 280,057              | 305,758             |
| Net Other Resources Used to Finance Activities  | 425,778              | 312,885             |
| <b>Total Resources Used to Finance Activities</b>   | <b>\$ 10,357,739</b> | <b>\$ 8,814,710</b> |
| <b>Resources Used to Finance Items not Part of the Net Cost of Operations</b>                           |                      |                     |
| Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered, but not yet Provided | \$ 1,109,123         | \$ 526,996          |
| Resources that Fund Expenses Recognized in Prior Periods  | 38,813               | 1,503               |
| Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations                 |                      |                     |
| Other   | (2,631,100)          | (2,358,664)         |
| Resources that Finance the Acquisition of Assets or Liquidation of Liabilities                          | 1,409,249            | 1,049,537           |
| Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations     | 1,420,212            | 2,028,173           |
| <b>Total Resources Used to Finance Items not Part of the Net Cost of Operations</b>                     | <b>\$ 1,346,297</b>  | <b>\$ 1,247,545</b> |
| <b>Total Resources Used to Finance the Net Cost of Operations</b>                                       | <b>\$ 9,011,442</b>  | <b>\$ 7,567,165</b> |

(Continued)



## Notes to Financial Statements

|   | <u>2008</u>         | <u>2007</u>         |
|---|---------------------|---------------------|
| <b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>  |                     |                     |
| <b>Components Requiring or Generating Resources in Future Periods</b>   |                     |                     |
| Increase in Annual Leave Liability and Environmental Liability  | \$ 46,196           | \$ 21,892           |
| Change in Actuarial FECA Liability and Other  | <u>78,034</u>       | <u>73,556</u>       |
| Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods                | \$ 124,230          | \$ 95,448           |
| <b>Components not Requiring or Generating Resources</b>   |                     |                     |
| Depreciation and Amortization   | \$ 457,452          | \$ 344,639          |
| Revaluation of Assets or Liabilities  | 9,595               | 12,035              |
| Other   | <u>(2,970)</u>      | <u>4,109</u>        |
| Total Components of Net Cost of Operations that will not Require or Generate Resources                              | <u>\$ 464,077</u>   | <u>\$ 360,783</u>   |
| <b>Total Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period</b> | <u>\$ 588,307</u>   | <u>\$ 456,231</u>   |
| <b>Net Cost of Operations</b>   | <u>\$ 9,599,749</u> | <u>\$ 8,023,396</u> |

## U.S. Customs and Border Protection Required Supplementary Information (Unaudited)

### Deferred Maintenance

Deferred maintenance is maintenance that was not performed when it should have been or was scheduled to be performed, and has been delayed until a future period. Maintenance includes preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it will continue to provide acceptable service and achieve its useful life.

An assessment of “fair” means the facility/equipment condition meets minimum standards but requires additional maintenance or repair to prevent further deterioration, increase operating efficiency, and to achieve normal life expectancy. An assessment of “good” means the facility/equipment condition is above minimum standards, but requires preventative maintenance or normal repairs to maintain the design intent of the building or equipment so that it continues to provide acceptable service and achieves the expected useful life. Deferred maintenance on property, plant, and equipment as measured by condition assessment survey, is composed of (in thousands):

| 2008                                    |                      |                      |
|---|----------------------|----------------------|
|   | Condition Assessment | Deferred Maintenance |
| Building and Structures                 | Poor to Good         | \$87,134             |
| Vehicles                                | Good                 | 13                   |
| Stewardship/Heritage Assets (multi-use) | Poor to Good         | 2,179                |
| Totals                                  |                      | <u>\$89,326</u>      |

| 2007                                    |                      |                      |
|---|----------------------|----------------------|
|   | Condition Assessment | Deferred Maintenance |
| Building and Structures                 | Poor                 | \$4,395              |
| Vehicles                                | —                    | —                    |
| Stewardship/Heritage Assets (multi-use) | —                    | —                    |
| Totals                                  |                      | <u>\$4,395</u>       |

### Statement of Budgetary Resources (SBR)

The total Budgetary Resources of \$17.2 billion for FY 2008 includes new budget authority, unobligated balances at the beginning of the year and transferred in/out, spending authority from offsetting collections, recoveries of prior year obligations, and adjustments.

# Required Supplementary Information

## U.S. Customs and Border Protection Required Supplementary Information (continued) (Unaudited)

### Schedule of Budgetary Resources by Major Fund Type

As of September 30, 2008 (in thousands):

|  | Appropriated<br>Funds | Trust<br>Funds   | Other<br>Funds      | Totals               |
|--|-----------------------|------------------|---------------------|----------------------|
| <b>Budgetary Resources</b>                         |                       |                  |                     |                      |
| Unobligated Balances Brought Forward,<br>October 1 | \$ 1,465,499          | \$ 413           | \$ 1,428,993        | \$ 2,894,905         |
| Recoveries of Prior Year Obligations               | 470,178               | 3,913            | 11,508              | 485,599              |
| Budget Authority:                                  |                       |                  |                     |                      |
| Appropriations                                     | 7,929,110             | 4,136            | 4,039,728           | 11,972,974           |
| Spending Authority from Offsetting<br>Collections: |                       |                  |                     |                      |
| Earned   |                       |                  |                     |                      |
| Collected  | 1,592,357             | —                | 19,768              | 1,612,125            |
| Change in Receivable from Federal<br>Sources       | (5,553)               | —                | (333)               | (5,886)              |
| Change in Unfilled Customer Orders:                |                       |                  |                     |                      |
| Advance Received                                   | 125                   | —                | —                   | 125                  |
| Without Advance from Federal Sources               | (33,249)              | (87)             | (865)               | (34,201)             |
| Expenditure Transfers from Trust Funds             | 3,093                 | —                | —                   | 3,093                |
| Subtotal   | 9,485,883             | 4,049            | 4,058,298           | 13,548,230           |
| Non-Expenditure Transfers from Trust Funds         | 1,829,278             | 3,093            | (1,495,708)         | 336,663              |
| Actual Transfers, Budget Authority                 | (3,000)               | —                | —                   | (3,000)              |
| Permanently not Available                          | (55,729)              | —                | (31,151)            | (86,880)             |
| <b>Total Budgetary Resources</b>                   | <b>\$ 13,192,109</b>  | <b>\$ 11,468</b> | <b>\$ 3,971,940</b> | <b>\$ 17,175,517</b> |
| <b>Status of Budgetary Resources</b>               |                       |                  |                     |                      |
| Obligations Incurred:                              |                       |                  |                     |                      |
| Direct   | \$ 10,468,629         | \$ 7,665         | \$ 2,386,682        | \$ 12,862,976        |
| Reimbursable                                       | 1,744,980             | —                | 18,551              | 1,763,531            |
| Total Obligations Incurred                         | 12,213,609            | 7,665            | 2,405,233           | 14,626,507           |
| Unobligated Balance:                               |                       |                  |                     |                      |
| Apportioned  | 7,892                 | —                | —                   | 7,892                |
| Exempt from Apportionment                          | —                     | —                | —                   | —                    |
| Subtotal   | 7,892                 | —                | —                   | 7,892                |
| Unobligated Balance not Available                  | 970,608               | 3,803            | 1,566,707           | 2,541,118            |
| <b>Total Status of Budgetary Resources</b>         | <b>\$ 13,192,109</b>  | <b>\$ 11,468</b> | <b>\$ 3,971,940</b> | <b>\$ 17,175,517</b> |

# Required Supplementary Information

## U.S. Customs and Border Protection Required Supplementary Information (continued) (Unaudited)

|   | Appropriated<br>Funds | Trust<br>Funds | Other<br>Funds | Totals       |
|---|-----------------------|----------------|----------------|--------------|
| <b>Change in Obligated Balances</b>   |                       |                |                |              |
| Obligated Balance, Net  |                       |                |                |              |
| Unpaid Obligations Brought Forward,<br>October 1  | \$ 3,982,203          | \$ 5,577       | \$ 81,948      | \$ 4,069,728 |
| Uncollected Customer Payments from<br>Federal Sources Brought Forward from<br>October 1 | (319,481)             | (88)           | (1,216)        | (320,785)    |
| Total Unpaid Obligated Balance, Net   | 3,662,722             | 5,489          | 80,732         | 3,748,943    |
| Obligations Incurred, Net   | 12,213,609            | 7,665          | 2,405,233      | 14,626,507   |
| Gross Outlays   | (10,440,205)          | (8,144)        | (2,384,575)    | (12,832,924) |
| Obligated Balance Transferred, Net  |                       |                |                |              |
| Actual Transfers, Unpaid Obligations  | —                     | —              | —              | —            |
| Recoveries of Prior Year Unpaid Obligations   | (470,178)             | (3,913)        | (11,508)       | (485,599)    |
| Change In Uncollected Customer Pymts from<br>Federal Sources                            | 38,802                | 87             | 1,198          | 40,087       |
| Obligated Balance, Net End of Period  |                       |                |                |              |
| Unpaid Obligations  | 5,285,430             | 1,184          | 91,099         | 5,377,713    |
| Less: Uncollected Customer Pymts from<br>Federal Sources                                | (280,680)             | (—)            | (19)           | (280,699)    |
| Total, Unpaid Obligated Balance, Net, End of<br>Period                                  | 5,004,750             | 1,184          | 91,080         | 5,097,014    |
| <b>Net Outlays</b>  |                       |                |                |              |
| Gross Outlays   | 10,440,205            | 8,144          | 2,384,575      | 12,832,924   |
| Less: Offsetting Collections  | (1,595,575)           | —              | (19,768)       | (1,615,343)  |
| Less: Distributed Offsetting Receipts   | —                     | —              | (2,633,691)    | (2,633,691)  |
| <b>Total Net Outlays</b>  | \$ 8,844,630          | \$ 8,144       | \$ (268,884)   | \$ 8,583,890 |

# Required Supplementary Information

## U.S. Customs and Border Protection Required Supplementary Information (continued) (Unaudited)

### Schedule of Budgetary Resources by Major Fund Type

As of September 30, 2007 (in thousands):

|  | Appropriated<br>Funds | Trust<br>Funds  | Other<br>Funds      | Totals               |
|--|-----------------------|-----------------|---------------------|----------------------|
| <b>Budgetary Resources</b>                         |                       |                 |                     |                      |
| Unobligated Balances Brought Forward,<br>October 1 | \$ 822,285            | \$ 255          | \$ 1,473,003        | \$ 2,295,543         |
| Recoveries of Prior Year Obligations               | 189,493               | 1,631           | 7,381               | 198,505              |
| Budget Authority:                                  |                       |                 |                     |                      |
| Appropriations                                     | 6,733,265             | 4,222           | 4,452,920           | 11,190,407           |
| Spending Authority from Offsetting Collections:    |                       |                 |                     |                      |
| Earned   |                       |                 |                     |                      |
| Collected  | 1,495,566             | 10              | 18,479              | 1,514,055            |
| Change in Receivable from Federal<br>Sources       | (33,527)              | (10)            | (423)               | (33,960)             |
| Change in Unfilled Customer Orders:                |                       |                 |                     |                      |
| Advance Received                                   | (2,401)               | —               | —                   | (2,401)              |
| Without Advance from Federal Sources               | (19,990)              | —               | (206)               | (20,196)             |
| Expenditure Transfers from Trust Funds             | 3,026                 | —               | —                   | 3,026                |
| Subtotal   | 8,175,939             | 4,222           | 4,470,770           | 12,650,931           |
| Non-Expenditure Transfers from Trust Funds         | 1,826,274             | 3,026           | (1,455,396)         | 373,904              |
| Permanently not Available                          | (29,075)              | —               | (73,449)            | (102,524)            |
| <b>Total Budgetary Resources</b>                   | <b>\$ 10,984,916</b>  | <b>\$ 9,134</b> | <b>\$ 4,422,309</b> | <b>\$ 15,416,359</b> |
| <b>Status of Budgetary Resources</b>               |                       |                 |                     |                      |
| Obligations Incurred:                              |                       |                 |                     |                      |
| Direct   | \$ 8,052,517          | \$ 8,721        | \$ 2,973,533        | \$ 11,034,771        |
| Reimbursable                                       | 1,466,900             | —               | 19,783              | 1,486,683            |
| Total Obligations Incurred                         | 9,519,417             | 8,721           | 2,993,316           | 12,521,454           |
| Unobligated Balance:                               |                       |                 |                     |                      |
| Apportioned  | 14,930                | 242             | 1,469               | 16,641               |
| Exempt from Apportionment                          | —                     | —               | —                   | —                    |
| Subtotal   | 14,930                | 242             | 1,469               | 16,641               |
| Unobligated Balance not Available                  | 1,450,569             | 171             | 1,427,524           | 2,878,264            |
| <b>Total Status of Budgetary Resources</b>         | <b>\$ 10,984,916</b>  | <b>\$ 9,134</b> | <b>\$ 4,422,309</b> | <b>\$ 15,416,359</b> |

(Continued)

# Required Supplementary Information

## U.S. Customs and Border Protection Required Supplementary Information (continued) (Unaudited)

|  | Appropriated<br>Funds | Trust<br>Funds  | Other<br>Funds    | Totals              |
|--|-----------------------|-----------------|-------------------|---------------------|
| <b>Change in Obligated Balances</b>  |                       |                 |                   |                     |
| Obligated Balance, Net   |                       |                 |                   |                     |
| Unpaid Obligations Brought Forward,<br>October 1   | \$ 2,960,284          | \$ 8,406        | \$ 98,484         | \$ 3,067,174        |
| Less: Uncollected Customer Payments<br>from Federal Sources, Brought Forward<br>from October 1 | (372,998)             | (97)            | (1,846)           | (374,941)           |
| Total Unpaid Obligated Balance, Net  | 2,587,286             | 8,309           | 96,638            | 2,692,233           |
| Obligations Incurred, Net  | 9,519,417             | 8,721           | 2,993,316         | 12,521,454          |
| Gross Outlays  | (8,342,015)           | (9,918)         | (3,002,468)       | (11,354,401)        |
| Obligated Balance Transferred, Net   |                       |                 |                   |                     |
| Actual Transfers, Unpaid Obligations   | 34,008                | —               | —                 | 34,008              |
| Recoveries of Prior Year Unpaid Obligations  | (189,493)             | (1,631)         | (7,381)           | (198,505)           |
| Change in Uncollected Customer Pymts from<br>Federal Sources                                   | 53,517                | 10              | 629               | 54,156              |
| Obligated Balance, Net End of Period   |                       |                 |                   |                     |
| Unpaid Obligations   | 3,982,781             | 4,998           | 81,949            | 4,069,728           |
| Less: Uncollected Customer Pymts from<br>Federal Sources                                       | (319,481)             | (88)            | (1,216)           | (320,785)           |
| Total, Unpaid Obligated Balance, Net, End of<br>Period   | 3,663,300             | 4,910           | 80,733            | 3,748,943           |
| <b>Net Outlays</b>   |                       |                 |                   |                     |
| Gross Outlays  | 8,342,015             | 9,918           | 3,002,468         | 11,354,401          |
| Less: Offsetting Collections   | (1,496,191)           | (10)            | (18,479)          | (1,514,680)         |
| Less: Distributed Offsetting Receipts  | —                     | —               | (2,360,600)       | (2,360,600)         |
| <b>Total Net Outlays</b>   | <u>\$ 6,845,824</u>   | <u>\$ 9,908</u> | <u>\$ 623,389</u> | <u>\$ 7,479,121</u> |



# Required Supplementary Information

## **U.S. Customs and Border Protection Required Supplementary Information (continued) (Unaudited)**

### **Custodial Activity**

Substantially all duty, tax, and fee revenues collected by CBP are remitted to various General Fund accounts maintained by Treasury and U.S. Department of Agriculture. Treasury further distributes these revenues to other federal agencies in accordance with various laws and regulations. CBP transfers the remaining revenue (less than 1 percent of revenues collected) directly to other federal agencies, the Governments of Puerto Rico, and the U.S. Virgin Islands. Refunds of revenues collected from import/export activities are recorded in separate accounts established for this purpose and are funded through permanent indefinite appropriations. These activities reflect the non-entity, or custodial, responsibilities that CBP, as an agency of the Federal Government, has been authorized by law to enforce.

CBP reviews selected documents to ensure all duties, taxes, and fees owed to the Federal Government are paid and to ensure regulations are followed. If CBP determines that duties, taxes, fees, fines, or penalties are due in addition to estimated amounts previously paid by the importer/violator, the importer/violator is notified of the additional amount due. CBP regulations allow the importer/violator to file a protest on the additional amount due for review by the Port Director. A protest allows the importer/violator the opportunity to submit additional documentation supporting their claim of a lower amount due or to cancel the additional amount due in its entirety. During the protest period, CBP does not have a legal right to importer/violator's assets, and consequently CBP recognizes accounts receivable only when the protest period has expired or an agreement is reached. For FY 2008 and 2007 CBP had the legal right to collect \$2.1 billion and \$1.94 billion of receivables. In addition, there were \$2 billion and \$2.7 billion representing records still in the protest phase for FY 2008 and 2007, respectively. CBP recognized as write-offs \$311 million and \$184 million of assessments that the Department has statutory authority to collect at September 30, 2008 and 2007, but has no future collection potential. Most of this amount represents fines, penalties, and interest.

### **U.S. Customs and Border Protection Other Accompanying Information (Unaudited)**

#### **Revenue Gap**

The Compliance Measurement Program collects objective statistical data to determine the compliance level of commercial imports with U.S. trade laws, regulations, and agreements, and is used to estimate the revenue gap. The revenue gap is a calculated estimate that measures potential loss of revenue owing to noncompliance with trade laws, regulations, and agreements using a statistically valid sample of the revenue losses and overpayments detected during Compliance Measurement entry summary reviews conducted throughout the year. For FY 2007 and 2006, the estimated revenue gap was \$412 million and \$450 million, respectively. The preliminary estimated revenue gap for FY 2008 is \$347 million. The preliminary estimated over-collection and under-collection amounts due to noncompliance for FY 2008 were \$70.2 million and \$417 million, respectively. The preliminary estimated over-collection and under-collection amounts due to noncompliance for FY 2007 were \$90 million and \$502 million, respectively. The preliminary overall trade compliance rate for FY 2008 and 2007 is 98 percent and 98.1 percent, respectively. With overall compliance at a high level, CBP has been able to emphasize matters of significant trade risk.

The final overall trade compliance rate and estimated revenue gap for FY 2008 will be issued in February 2009.

## Other Accompanying Information

### U.S. Customs and Border Protection Other Accompanying Information (continued) (Unaudited)

#### Petitioned and Protested Schedule

An analysis of the changes in petitioned and protested assessed amounts during FY 2008 and 2007 is as follows (in thousands):

| 2008                                   |                      |                           |                                  |  |                          |                         |
|--|----------------------|---------------------------|----------------------------------|--|--------------------------|-------------------------|
|  | Balance<br>October 1 | Additional<br>Assessments | Protest<br>in Favor<br>of Debtor | Net Reduction<br>Administrative<br>Process | Additional<br>Receivable | Balance<br>September 30 |
| Duties                                 | \$ 220,610           | \$ 229,995                | \$ (10,149)                      | \$ (103,110)                               | \$ (90,191)              | \$ 247,155              |
| Taxes                                  | 48                   | 744                       | (8)                              | (414)                                      | (70)                     | 300                     |
| Fees                                   | 3,778                | 2,799                     | (102)                            | (5,601)                                    | (182)                    | 692                     |
| Fines/Penalties                        | 2,076,989            | 818,467                   | (905,125)                        | (47)                                       | (768,141)                | 1,222,143               |
| Interest                               | 123,108              | 135,453                   | (8,276)                          | (23,524)                                   | (52,758)                 | 174,003                 |
| Antidumping/<br>Countervailing<br>Duty | 302,130              | 299,785                   | (36,594)                         | (60,090)                                   | (138,831)                | 366,400                 |
| Refunds &<br>Drawback                  | 10,669               | 9,429                     | (660)                            | (12,064)                                   | (1,652)                  | 5,722                   |
| Totals                                 | <u>\$ 2,737,332</u>  | <u>\$ 1,496,672</u>       | <u>\$ (960,914)</u>              | <u>\$ (204,850)</u>                        | <u>\$(1,051,825)</u>     | <u>\$ 2,016,415</u>     |

| 2007                                   |                      |                           |                                  |  |                          |                         |
|--|----------------------|---------------------------|----------------------------------|--|--------------------------|-------------------------|
|  | Balance<br>October 1 | Additional<br>Assessments | Protest<br>in Favor<br>of Debtor | Net Reduction<br>Administrative<br>Process | Additional<br>Receivable | Balance<br>September 30 |
| Duties                                 | \$ 62,743            | \$ 245,224                | \$ (7,449)                       | \$ (62,638)                                | \$ (17,270)              | \$ 220,610              |
| Taxes                                  | 523                  | 1,087                     | (31)                             | (1,048)                                    | (483)                    | 48                      |
| Fees                                   | 374                  | 4,637                     | (98)                             | (1,019)                                    | (116)                    | 3,778                   |
| Fines/Penalties                        | 1,970,379            | 1,614,214                 | (1,792,179)                      | (92)                                       | 284,667                  | 2,076,989               |
| Interest                               | 99,252               | 124,867                   | (2,582)                          | (44,662)                                   | (53,767)                 | 123,108                 |
| Antidumping/<br>Countervailing<br>Duty | 256,311              | 509,125                   | (15,920)                         | (153,146)                                  | (294,240)                | 302,130                 |
| Refunds &<br>Drawback                  | 10,687               | 22,537                    | (1,629)                          | (20,140)                                   | (786)                    | 10,669                  |
| Totals                                 | <u>\$2,400,269</u>   | <u>\$ 2,521,691</u>       | <u>\$(1,819,888)</u>             | <u>\$ (282,745)</u>                        | <u>\$ (81,995)</u>       | <u>\$2,737,332</u>      |

CBP reviews selected entry documentation to determine whether importer payment estimates of duties, taxes, and fees were accurate or whether additional supplemental amounts are owed and should be billed.

## U.S. Customs and Border Protection Other Accompanying Information (continued) (Unaudited)

CBP regulations allow the importer 90 days (or 180 days for entries on or after 12/18/04) from the bill date in which to file a protest to be reviewed by the Port Director and an application requesting further review of the protest by CBP Office of Regulations and Rulings challenging the assessment of supplemental duties, taxes, and fees. If the Port Director denies the protest and application for further review, the protestor has an additional 60 days from the denial date for a review of the application by the Commissioner of CBP. Consequently, CBP recognizes accounts receivables only when the protested period has elapsed or when a protest decision has been rendered in CBP favor.

Additionally, importers and their sureties also have the option to petition for relief after receipt of CBP notice that a fine or penalty has been assessed when a violation of law or regulation is discovered. The importer or surety has 60 days to file a petition for relief or make payment of the assessed amount. If a petition is received and CBP finds there are extenuating circumstances such as an incorrect assessment, which warrants mitigation, relief is granted as prescribed by CBP mitigation guidelines and directives. Consequently, CBP recognizes accounts receivables only when the petition period has elapsed or when a petition decision has been rendered.

### Accounts Receivable with Public, Net

An aging of Accounts Receivables with the Public as of September 30, 2008 and 2007 is as follows (in thousands):

| 2008                       | Aged Period      |                 |                 |               |                 |                  |
|----------------------------|------------------|-----------------|-----------------|---------------|-----------------|------------------|
|                            | <=90 days        | 91 days–1 year  | 1–2 years       | 2–3 years     | 3+ years        | Total            |
| Reimbursable Services      | \$ 433           | \$ 3,245        | \$ 1,465        | \$ 77         | \$ 345          | \$ 5,565         |
| User Fees                  | 145,237          | 31,401          | 3,770           | 1,421         | 16,112          | 197,941          |
| Gross Receivables          | 145,670          | 34,646          | 5,235           | 1,498         | 16,457          | 203,506          |
| Less Uncollectible Amounts | (—)              | (10,308)        | (1,862)         | (783)         | (12,909)        | (25,862)         |
| <b>Net Receivables</b>     | <u>\$145,670</u> | <u>\$24,338</u> | <u>\$ 3,373</u> | <u>\$ 715</u> | <u>\$ 3,548</u> | <u>\$177,644</u> |

| 2007                       | Aged Period      |                 |               |               |                 |                  |
|----------------------------|------------------|-----------------|---------------|---------------|-----------------|------------------|
|                            | <=90 days        | 91 days–1 year  | 1–2 years     | 2–3 years     | 3+ years        | Total            |
| Reimbursable Services      | \$ 528           | \$ 4,265        | \$ 723        | \$ 696        | \$ 58           | \$ 6,270         |
| User Fees                  | 139,297          | 7,650           | 2,115         | 3,371         | 14,661          | 167,094          |
| Gross Receivables          | 139,825          | 11,915          | 2,838         | 4,067         | 14,719          | 173,364          |
| Less Uncollectible Amounts | (1,751)          | (1,326)         | (2,533)       | (3,179)       | (13,173)        | (21,962)         |
| <b>Net Receivables</b>     | <u>\$138,074</u> | <u>\$10,589</u> | <u>\$ 305</u> | <u>\$ 888</u> | <u>\$ 1,546</u> | <u>\$151,402</u> |

## Other Accompanying Information

### U.S. Customs and Border Protection Other Accompanying Information (continued) (Unaudited)

#### Tax, Duties, and Trade Receivables, Net

An analysis of the changes in accounts receivable during FY 2008 and 2007 is as follows (in thousands):

| 2008                                |                     |   |                       |                    |                       |                      |
|-------------------------------------|---------------------|---|-----------------------|--------------------|-----------------------|----------------------|
| Receivable Category                 | Balance October 1   | Receivables Recorded During the Fiscal Year | Collections           | Write-offs         | Adjustments           | Balance September 30 |
| Duties                              | \$ 1,648,851        | \$13,706,210                                | \$(12,708,037)        | \$ (2,996)         | \$ (802,341)          | \$ 1,841,687         |
| Excise Taxes                        | 126,752             | 1,814,198                                   | (1,773,158)           | (7)                | (68,807)              | 98,978               |
| Fees                                | 132,452             | 1,816,214                                   | (1,779,521)           | (11)               | (24,335)              | 144,799              |
| Fines/Penalties                     | 1,115,645           | 1,540,038                                   | (72,596)              | (276,929)          | (1,532,466)           | 773,692              |
| Interest                            | 190,338             | 97,651                                      | (12,257)              | (16,524)           | (36,509)              | 222,699              |
| Antidumping/<br>Countervailing Duty | 311,135             | 379,391                                     | (257,010)             | (14,515)           | (108,904)             | 310,097              |
| Refunds/Drawback                    | 2,062               | 10,566                                      | (10,076)              | (—)                | (2,099)               | 453                  |
| <b>Totals</b>                       | <b>\$ 3,527,235</b> | <b>\$19,364,268</b>                         | <b>\$(16,612,655)</b> | <b>\$(310,982)</b> | <b>\$ (2,575,461)</b> | <b>\$ 3,392,405</b>  |
| Less Uncollectible Amounts          | 1,590,361           |   |                       |                    |                       | 1,314,393            |
| <b>Net Receivables</b>              | <b>\$ 1,936,874</b> |   |                       |                    |                       | <b>\$ 2,078,012</b>  |

| 2007                                |                     |   |                       |                    |                       |                      |
|-------------------------------------|---------------------|---|-----------------------|--------------------|-----------------------|----------------------|
| Receivable Category                 | Balance October 1   | Receivables Recorded During the Fiscal Year | Collections           | Write-offs         | Adjustments           | Balance September 30 |
| Duties                              | \$ 1,553,714        | \$23,419,661                                | \$(22,831,012)        | \$ (2,349)         | \$ (491,163)          | \$ 1,648,851         |
| Excise Taxes                        | 99,178              | 2,653,498                                   | (2,669,793)           | (95)               | 43,964                | 126,752              |
| Fees                                | 120,041             | 2,246,723                                   | (2,235,523)           | (8)                | 1,219                 | 132,452              |
| Fines/Penalties                     | 1,120,769           | 11,851,765                                  | (60,139)              | (174,345)          | (11,622,405)          | 1,115,645            |
| Interest                            | 164,589             | 139,307                                     | (38,855)              | (2,013)            | (72,690)              | 190,338              |
| Antidumping/<br>Countervailing Duty | 260,929             | 911,307                                     | (532,320)             | (4,951)            | (323,830)             | 311,135              |
| Refunds/Drawback                    | 2,077               | 27,399                                      | (25,301)              | (3)                | (2,110)               | 2,062                |
| <b>Totals</b>                       | <b>\$3,321,297</b>  | <b>\$41,249,660</b>                         | <b>\$(28,392,943)</b> | <b>\$(183,764)</b> | <b>\$(12,467,015)</b> | <b>\$ 3,527,235</b>  |
| Less Uncollectible Amounts          | 1,566,675           |   |                       |                    |                       | 1,590,361            |
| <b>Net Receivables</b>              | <b>\$ 1,754,622</b> |   |                       |                    |                       | <b>\$ 1,936,874</b>  |

## Other Accompanying Information

### U.S. Customs and Border Protection Other Accompanying Information (continued) (Unaudited)

An aging of Intragovernmental receivables as of September 30, 2008 and 2007 is as follows (in thousands):

| 2008                                   | Aged Period         |                  |                  |                  |                  | Total               |
|--|---------------------|------------------|------------------|------------------|------------------|---------------------|
|  | <=90 days           | 91 days–1 year   | 1–2 years        | 2–3 years        | 3+ years         |                     |
| Duties                                 | \$1,701,888         | \$ 17,175        | \$ 13,103        | \$ 13,604        | \$ 95,917        | \$ 1,841,687        |
| Excise Taxes                           | 92,916              | 23               | 11               | 20               | 6,008            | 98,978              |
| User Fees                              | 134,865             | 298              | 49               | 9,304            | 283              | 144,799             |
| Fines/Penalties                        | 52,740              | 79,570           | 123,987          | 104,600          | 412,795          | 773,692             |
| Interest                               | 6                   | 19,040           | 6,789            | 23,307           | 173,557          | 222,699             |
| Antidumping/<br>Countervailing<br>Duty | 12,704              | 63,644           | 16,600           | 43,646           | 173,503          | 310,097             |
| Refunds and<br>Drawback                | —                   | 24               | 181              | 21               | 227              | 453                 |
| Gross Receivables                      | 1,995,119           | 179,774          | 160,720          | 194,502          | 862,290          | 3,392,405           |
| Less Uncollectible<br>Amounts          | (53,735)            | (139,127)        | (142,466)        | (156,989)        | (822,076)        | (1,314,393)         |
| <b>Net Receivables</b>                 | <b>\$ 1,941,384</b> | <b>\$ 40,647</b> | <b>\$ 18,254</b> | <b>\$ 37,513</b> | <b>\$ 40,214</b> | <b>\$ 2,078,012</b> |

| 2007                                   | Aged Period        |                  |                  |                  |                  | Total               |
|--|--------------------|------------------|------------------|------------------|------------------|---------------------|
|  | <=90 days          | 91 days–1 year   | 1–2 years        | 2–3 years        | 3+ years         |                     |
| Duties                                 | \$1,527,733        | \$ 7,043         | \$ 13,996        | \$ 17,639        | \$ 82,440        | \$ 1,648,851        |
| Excise Taxes                           | 120,865            | 28               | 39               | 5                | 5,815            | 126,752             |
| User Fees                              | 117,524            | 82               | 14,578           | 23               | 245              | 132,452             |
| Fines/Penalties                        | 170,851            | 77,604           | 189,619          | 319,264          | 358,307          | 1,115,645           |
| Interest                               | 1                  | 1,854            | 30,516           | 4,968            | 152,999          | 190,338             |
| Antidumping/<br>Countervailing<br>Duty | 46,589             | 28,642           | 48,917           | 37,980           | 149,007          | 311,135             |
| Refunds and<br>Drawback                | 2                  | 368              | 21               | 138              | 1,533            | 2,062               |
| Gross Receivables                      | 1,983,565          | 115,621          | 297,686          | 380,017          | 750,346          | 3,527,235           |
| Less Uncollectible<br>Amounts          | (167,657)          | (103,733)        | (256,898)        | (352,490)        | (709,583)        | (1,590,361)         |
| <b>Net Receivables</b>                 | <b>\$1,815,908</b> | <b>\$ 11,888</b> | <b>\$ 40,788</b> | <b>\$ 27,527</b> | <b>\$ 40,763</b> | <b>\$ 1,936,874</b> |



## Other Accompanying Information

### U.S. Customs and Border Protection Other Accompanying Information (continued) (Unaudited)

#### CBP Collections by Category (Dollars in thousands)

| Duties                        | 2004                | 2005                | 2006                | 2007                | 2008                |
|-------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
|                               | (Unaudited)         | (Unaudited)         | (Unaudited)         | (Unaudited)         | (Unaudited)         |
| Consumption Entries           | \$21,012,275        | \$23,213,476        | \$24,787,051        | \$26,477,180        | \$27,543,807        |
| Warehouse Withdrawals         | 115,512             | 107,477             | 90,832              | 80,858              | 76,910              |
| Mail Entries                  | 3,175               | 2,687               | 2,696               | 4,015               | 4,223               |
| Passenger Baggage Entries     | 4,551               | 3,985               | 4,386               | 4,528               | 3,888               |
| Crew Baggage Entries          | 17                  | 11                  | 9                   | 9                   | 8                   |
| Military Baggage Entries      | 4                   | 2                   | 2                   | 1                   | 1                   |
| Informal Entries              | 53,612              | 55,680              | 57,415              | 56,026              | 54,537              |
| Vessel Repair Entries         | 36,033              | 38,687              | 15,742              | 22,938              | 43,315              |
| Other Duties                  | 54,433              | 44,552              | 37,853              | 57,122              | 41,277              |
| <b>Total Duties</b>           | <b>21,279,612</b>   | <b>23,466,557</b>   | <b>24,995,986</b>   | <b>26,702,677</b>   | <b>27,767,966</b>   |
| <b>Miscellaneous</b>          |                     |                     |                     |                     |                     |
| Violations Of CBP Law         | 52,159              | 54,227              | 49,797              | 56,434              | 69,993              |
| Testing, Inspecting & Grading | 54                  | 56                  | 46                  | 34                  | 5,114               |
| Miscellaneous Taxes           | 17,391              | 18,659              | 19,803              | 19,726              | 20,082              |
| USDA Collections              | 77,410              | 91,070              | 94,359              | 115,168             | 112,319             |
| Harbor Maintenance Fee        | 869,522             | 1,047,843           | 1,206,414           | 1,261,681           | 1,467,405           |
| Fees                          | 5,195               | 5,419               | 7,107               | 6,695               | 8,134               |
| User Fee Account              | 1,464,138           | 1,600,365           | 1,702,043           | 2,436,087           | 2,633,600           |
| Unclaimed Funds               | 1,081               | 1,124               | 991                 | 479                 | 372                 |
| Recoveries                    | 53                  | 3                   | 2                   | 2                   | 9                   |
| Interest                      | 9,892               | 9,760               | 8,604               | 13,229              | 23,987              |
| Other CBP Receipts            | 8,663               | 9,645               | 17,246              | 17,382              | 15,325              |
| <b>Total Miscellaneous</b>    | <b>2,505,558</b>    | <b>2,838,171</b>    | <b>3,106,412</b>    | <b>3,926,917</b>    | <b>4,356,340</b>    |
| <b>Internal Revenue Taxes</b> | <b>2,205,744</b>    | <b>2,255,482</b>    | <b>2,345,992</b>    | <b>2,537,098</b>    | <b>\$2,372,762</b>  |
| <b>Total Collections</b>      | <b>\$25,990,914</b> | <b>\$28,560,210</b> | <b>\$30,448,390</b> | <b>\$33,166,692</b> | <b>\$34,497,068</b> |

These schedules will not equal amounts reported on the Consolidated Statement of Custodial Activity due to certain deposit fund collections, which are not considered custodial collections, being reported on the Consolidated Balance Sheet, and other adjustments.

## Other Accompanying Information

### U.S. Customs and Border Protection Other Accompanying Information (continued) (Unaudited)

#### CBP Collections by Major Processing Port Locations (Dollars in thousands)

|                                 | 2004        | 2005        | 2006        | 2007        | 2008        |
|---------------------------------|-------------|-------------|-------------|-------------|-------------|
|                                 | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| Boston                          | \$ 440,158  | \$ 457,696  | \$ 478,550  | \$ 490,841  | \$ 473,272  |
| Buffalo-Niagara Falls           | 181,876     | 201,428     | 210,888     | 211,699     | 219,508     |
| Ogdensburg                      | 102,490     | 120,864     | 141,628     | 155,739     | 150,884     |
| Portland, Maine                 | 54,311      | 59,397      | 57,673      | 59,000      | 62,549      |
| Providence                      | 67,787      | 74,624      | 83,238      | 92,454      | 80,518      |
| St. Albans                      | 41,129      | 47,311      | 44,687      | 42,897      | 32,817      |
| Baltimore                       | 548,892     | 584,537     | 584,719     | 586,224     | 637,952     |
| Philadelphia                    | 549,459     | 586,956     | 639,201     | 650,157     | 588,607     |
| Newark                          | 3,961,215   | 4,179,939   | 4,362,201   | 4,552,031   | 4,642,846   |
| JFK Airport                     | 1,274,989   | 1,300,376   | 1,220,472   | 1,234,035   | 1,216,836   |
| Charleston                      | 906,318     | 1,145,999   | 1,175,442   | 1,030,435   | 1,002,353   |
| Miami                           | 844,143     | 798,307     | 752,711     | 733,596     | 634,894     |
| San Juan                        | 98,709      | 15,381      | 123,132     | 110,913     | 108,981     |
| St. Thomas                      | 11,949      | 113,244     | 14,819      | 16,074      | 17,145      |
| Savannah                        | 958,250     | 1,108,911   | 1,265,007   | 1,438,061   | 1,550,580   |
| Tampa                           | 390,533     | 409,229     | 473,650     | 506,870     | 516,533     |
| Wilmington                      | 272,646     | 267,769     | 290,312     | 314,993     | 328,933     |
| Norfolk                         | 563,558     | 629,274     | 674,041     | 685,494     | 709,807     |
| NFC Indianapolis/<br>Washington | 702,528     | 703,182     | 914,086     | 1,518,378   | 1,941,618   |
| Mobile                          | 108,809     | 125,715     | 157,920     | 142,869     | 196,619     |
| New Orleans                     | 855,041     | 885,110     | 936,744     | 1,055,211   | 1,145,196   |
| Dallas/Ft. Worth                | 335,763     | 378,052     | 418,128     | 444,678     | 460,147     |
| El Paso                         | 112,521     | 126,113     | 146,472     | 196,930     | 173,202     |
| Houston                         | 497,180     | 611,527     | 773,047     | 805,245     | 909,631     |
| Laredo                          | 307,842     | 337,921     | 370,216     | 395,215     | 411,218     |
| Port Arthur                     | 32,613      | 35,092      | 28,144      | 32,604      | 33,725      |
| Nogales                         | 92,216      | 82,636      | 77,832      | 82,999      | 82,410      |
| Los Angeles                     | 5,982,568   | 6,788,238   | 7,258,249   | 8,138,181   | 8,387,589   |
| San Diego                       | 230,158     | 237,419     | 259,000     | 303,717     | 294,529     |
| Anchorage                       | 101,446     | 84,913      | 103,998     | 110,296     | 116,518     |
| Honolulu                        | 45,898      | 42,089      | 39,670      | 39,955      | 43,013      |

## Other Accompanying Information

### U.S. Customs and Border Protection Other Accompanying Information (continued) (Unaudited)

#### CBP Collections by Major Processing Port Locations (continued)

|                                 | 2004                | 2005                | 2006                | 2007                | 2008                |
|---------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
|                                 | (Unaudited)         | (Unaudited)         | (Unaudited)         | (Unaudited)         | (Unaudited)         |
| Portland                        | 341,904             | 369,471             | 395,707             | 454,523             | 443,190             |
| San Francisco                   | 774,722             | 800,687             | 945,986             | 1,084,934           | 1,161,110           |
| Seattle                         | 816,870             | 1,143,720           | 1,157,762           | 1,274,972           | 1,264,836           |
| Chicago                         | 1,299,606           | 1,412,668           | 1,436,691           | 1,560,159           | 1,664,181           |
| Cleveland                       | 1,009,197           | 1,114,677           | 1,245,447           | 1,385,583           | 1,528,043           |
| Detroit                         | 487,286             | 552,711             | 546,870             | 538,879             | 563,036             |
| Milwaukee                       | 32,437              | 32,630              | 33,230              | 36,056              | 37,766              |
| Minneapolis                     | 123,082             | 132,869             | 168,568             | 180,724             | 198,610             |
| Pembina                         | 14,256              | 16,434              | 17,631              | 18,982              | 23,635              |
| St. Louis                       | 293,594             | 304,816             | 271,647             | 287,356             | 282,539             |
| Great Falls                     | 124,965             | 140,278             | 152,974             | 166,733             | 159,692             |
| <b>Total Revenues Collected</b> | <b>\$25,990,914</b> | <b>\$28,560,210</b> | <b>\$30,448,390</b> | <b>\$33,166,692</b> | <b>\$34,497,068</b> |

These schedules will not equal amounts reported on the Consolidated Statement of Custodial Activity due to certain deposit fund collections, which are not considered custodial collections, being reported on the Consolidated Balance Sheet, and other adjustments.

#### Improper Payments Information Act of 2002 (IPIA)

CBP Improper Payment Act (IPIA) efforts included the completion of a risk assessment of all CBP programs and the identification of two custodial programs that were determined to be susceptible to significant erroneous payments. The two programs, Custodial Refund and Drawback and Custodial Continued Dumping and Subsidy Offset Act (CDSOA) and Payment to Wool and Cotton Manufacturers, both relate to duty, tax, and fee trade-related activity.

CBP performed sample payment testing on these programs. The Custodial Refund and Drawback payment testing yielded an estimated improper payment amount of \$1.7 million of the \$6.7 billion, or 0.03 percent, disbursed during fiscal year 2007. The Custodial CDSOA and Payment to Wool and Cotton Manufacturers payment testing yielded an estimated improper payment amount of \$0 of the \$408 million, disbursed during fiscal year 2007.

## U.S. Customs and Border Protection Other Accompanying Information (continued) (Unaudited)

### Recovery Auditing

CBP contracted the audit recovery work for disbursements made during fiscal year 2007. The results of the recovery audit efforts continue to identify negligible recovery amounts. The recovery audit results are reported below:

| Amount Subject to Review for CY Reporting | Actual Amount Reviewed and Reported CY | Amounts Identified for Recovery CY | Amounts Recovered CY | Amounts Identified for Recovery PY | Amounts Recovered PY | Cumulative Amounts Identified for Recovery (CY + PY) | Cumulative Amounts Recovered (CY + PY) |
|---|--|------------------------------------|----------------------|------------------------------------|----------------------|--|--|
| \$1,764,855,973                           | \$1,764,855,973                        | \$ 90,368                          | \$ 6,905             | \$ 179,476                         | \$ 124,124           | \$ 269,844   | \$ 131,029                             |

In addition, CBP identified amounts for recovery during the Improper Payment Information Act (IPIA) review of FY 2007 Custodial Program disbursements. The IPIA results are as follows (dollars in thousands):

|                                  | Amounts Identified as Improper Payments | Amounts Identified for Recovery | Amounts Recovered |
|----------------------------------|---|---------------------------------|-------------------|
| Custodial Refund and Drawback    | \$ 1,540                                | \$ 1,002                        | \$ 1,002          |
| Custodial CDSOA, Cotton and Wool | —                                       | —                               | —                 |
| <b>Totals</b>                    | <b>1,540</b>                            | <b>1,002</b>                    | <b>1,002</b>      |

Recoveries for Custodial Refund and Drawback Program payments are restricted by regulations governing collections of duty, taxes, and fees associated with trade-related activity.

# Auditor Reports

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## Office of Inspector General (OIG) Report on Major Management Challenges

The DHS OIG's report on Major Management Challenges Facing the Department of Homeland Security dated November 12, 2008, and the agency's progress addressing these challenges are addressed at the DHS consolidated level and are incorporated into the DHS Fiscal Year 2008 Annual Financial Report

## Independent Auditor's Report

The independent audit of CBP's consolidated financial statements was conducted by KPMG LLP, and follows in its entirety.

# Independent Auditor's Report

Office of Inspector General

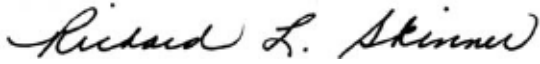
U.S. Department of Homeland Security  
Washington, DC 20528



**Homeland  
Security**

January 8, 2009

MEMORANDUM FOR: The Honorable W. Ralph Basham  
Commissioner  
United States Customs and Border Protection

FROM:   
Richard L. Skinner  
Inspector General

SUBJECT: *Independent Auditors' Report on U.S. Customs and Border  
Protection's FY 2008 Consolidated Financial Statements*

The attached report presents the results of the U.S. Customs and Border Protection's (CBP) consolidated financial statement audits for fiscal years (FY) 2008 and 2007. We contracted with the independent public accounting firm KPMG LLP (KPMG) to perform the audits. KPMG concluded that CBP's consolidated financial statements as of and for the years ended September 30, 2008, and September 30, 2007, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

The FY 2008 independent auditors' report also contains observations and recommendations related to internal control weaknesses that were considered significant deficiencies and were required to be reported in the financial statement audit report. The four significant deficiencies in internal controls are presented below; the first significant deficiency is considered to be a material weakness.

## Significant Deficiencies

1. Drawback of Duties, Taxes, and Fees
2. Financial Reporting
  - a. Property, plant, and equipment
  - b. Inactive obligations
3. Entry Process
  - a. In-Bond Program
  - b. Compliance Measurement
  - c. Bonded Warehouse and Foreign Trade Zones
4. Information Technology



# Independent Auditor's Report

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Further, two instances of noncompliance with laws and regulations were noted in the following areas.

## **Noncompliance with Laws and Regulations**

1. *Federal Information Security Management Act (FISMA)* – Electronic Government Act of 2002
2. *Federal Financial Management Improvement Act of 1996 (FFMIA)*

KPMG is responsible for the attached independent auditors' report dated December 4, 2008 and the conclusions expressed in the report. We do not express opinions on financial statements or internal control or conclusions on compliance with laws and regulations.

Consistent with our responsibility under the *Inspector General Act*, we are providing copies of our report to appropriate congressional committees with oversight and appropriation responsibility over the Department of Homeland Security. In addition, we will post a copy of the report on our website.

We extend our appreciation to CBP's Office of the Chief Financial Officer and field offices for the cooperation and courtesies extended to our and KPMG's staff during the audit. Should you have any questions, please call me, or your staff may contact Anne L. Richards, Assistant Inspector General for Audits, at 202-254-4100.

Attachment



**Independent Auditors' Report on  
U.S. Customs and Border Protection's  
FY 2008 Consolidated Financial Statements**



OIG-09-14

January 2009

# Independent Auditor's Report

Office of Inspector General

U.S. Department of Homeland Security  
Washington, DC 20528



Homeland  
Security

January 8, 2009

## Preface

The Department of Homeland Security (DHS) Office of Inspector General (OIG) was established by the *Homeland Security Act of 2002* (Public Law 107-296) by amendment to the *Inspector General Act of 1978*. This is one of a series of audit, inspection, and special reports prepared as part of our oversight responsibilities to promote economy, efficiency, and effectiveness within the department.

The attached report presents the results of U.S. Customs and Border Protection's consolidated financial statement audits for fiscal years (FY) 2008 and 2007. We contracted with the independent public accounting firm KPMG LLP (KPMG) to perform the audits. The contract required that KPMG perform its audits according to generally accepted government auditing standards and guidance from the Office of Management and Budget and the Government Accountability Office. KPMG concluded that CBP's consolidated financial statements as of and for the years ended September 30, 2008 and 2007, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. The FY 2008 auditors' report discusses one material weakness, three significant deficiencies in internal controls, and two instances of noncompliance with laws and regulations. KPMG is responsible for the attached draft auditor's report and the conclusions expressed in the report. We do not express opinions on CBP's financial statements or provide conclusions on compliance with laws and regulations.

The recommendations herein have been discussed in draft with those responsible for implementation. It is our hope that this report will result in more effective, efficient, and economical operations. We express our appreciation to all of those who contributed to the preparation of this report.

A handwritten signature in black ink that reads "Richard L. Skinner".

Richard L. Skinner  
Inspector General



KPMG LLP  
2001 M Street, NW  
Washington, DC 20036

## Independent Auditors' Report

Inspector General  
U.S. Department of Homeland Security:

Commissioner  
U.S. Customs and Border Protection:

We have audited the accompanying consolidated balance sheets of the U.S. Department of Homeland Security's (DHS) Customs and Border Protection (CBP) as of September 30, 2008 and 2007, and the related consolidated statements of net cost, changes in net position, and custodial activity, and combined statements of budgetary resources (hereinafter referred to as "consolidated financial statements") for the years then ended. The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our fiscal year 2008 audit, we also considered CBP's internal controls over financial reporting and tested CBP's compliance with certain provisions of applicable laws, regulations, and contracts that could have a direct and material effect on these consolidated financial statements.

### Summary

As stated in our opinion on the consolidated financial statements, we concluded that CBP's consolidated financial statements as of and for the years ended September 30, 2008 and 2007, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

Our consideration of internal control over financial reporting resulted in the following conditions being identified as significant deficiencies:

1. Drawback of Duties, Taxes, and Fees
2. Financial Reporting
  - a. Property, plant, and equipment
  - b. Inactive obligations
3. Entry Process
  - a. In-Bond Program
  - b. Compliance Measurement
  - c. Bonded Warehouse and Foreign Trade Zones
4. Information Technology

We consider the first significant deficiency, above, to be a material weakness.

The results of our tests of compliance with certain provisions of laws, regulations, and contracts disclosed the following instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*:

1. *Federal Information Security Management Act (FISMA)* – Electronic Government Act of 2002
2. *Federal Financial Management Improvement Act of 1996 (FFMIA)*

# Independent Auditor's Report



The following sections discuss our opinion on CBP's consolidated financial statements; our consideration of CBP's internal controls over financial reporting; our tests of CBP's compliance with certain provisions of applicable laws, regulations, and contracts; and management's and our responsibilities.

## **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheets of the U.S. Department of Homeland Security's (DHS) Customs and Border Protection (CBP) as of September 30, 2008 and 2007, and the related consolidated statements of net cost, changes in net position, and custodial activity, and the combined statements of budgetary resources for the years then ended.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CBP as of September 30, 2008 and 2007, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended, in conformity with U.S. generally accepted accounting principles.

The information in the Management's Discussion and Analysis and Required Supplementary Information is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information in the Performance Results Section and Other Accompanying Information section are presented for purposes of additional analysis and are not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

## **Internal Control Over Financial Reporting**

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects CBP's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of CBP's consolidated financial statements that is more than inconsequential will not be prevented or detected by CBP's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by CBP's internal control.

In our fiscal year 2008 audit, we consider the deficiencies, described in Exhibits I and II, to be significant deficiencies in internal control over financial reporting. However, of the significant deficiencies described in Exhibits I and II, we believe that the significant deficiency presented in Exhibit I is a material weakness. Exhibit IV presents the status of prior year significant deficiencies.



## Compliance and Other Matters

The results of certain of our tests of compliance as described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed one instance of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04, and is described in Exhibit III.

The results of our other tests of compliance as described in the Responsibilities section of this report, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

The results of our tests of FFMIA disclosed instances, described in Exhibit III, in which CBP's financial systems did not substantially comply with Federal financial management systems requirements and were not compliant with the United States Government Standard General Ledger at the transaction level.

The results of our tests of FFMIA disclosed no instances in which CBP's financial management systems did not substantially comply with Federal accounting standards.

\* \* \* \* \*

## Responsibilities

**Management's Responsibilities.** Management is responsible for the consolidated financial statements; establishing and maintaining effective internal control; and complying with laws, regulations, and contracts applicable to CBP.

**Auditors' Responsibilities.** Our responsibility is to express an opinion on the fiscal year 2008 and 2007 consolidated financial statements of CBP based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of CBP's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated financial statement presentation.

We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2008 audit, we considered CBP's internal control over financial reporting by obtaining an understanding of CBP's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to



# Independent Auditor's Report



express an opinion on the effectiveness of CBP's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of CBP's internal control over financial reporting.

As part of obtaining reasonable assurance about whether CBP's fiscal year 2008 consolidated financial statements are free of material misstatement, we performed tests of CBP's compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including the provisions referred to in Section 803(a) of FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, and contract agreements applicable to CBP. However, providing an opinion on compliance with laws, regulations, and contract agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

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CBP's response to the findings identified in our audit are presented in Exhibits I, II, and III. We did not audit CBP's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of CBP's management, DHS management, the DHS Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 4, 2008

## EXHIBIT I

### Material Weaknesses

#### A. Drawback of Duties, Taxes and Fees

##### Background:

CBP, as a component of DHS, continued to perform an important revenue collection function for the U.S. Treasury. CBP collects approximately \$31.4 billion in import duties, taxes and fees annually on merchandise arriving in the United States from foreign countries.

Drawback is a remittance in whole or in part, of duties, taxes, or fees previously paid by an importer. Drawback typically occurs when the imported goods on which duties, taxes, or fees have been previously paid are subsequently exported from the United States or destroyed prior to entering the commerce of the United States. Depending on the type of drawback claim, the claimant has up to eight years from the date of importation to file for drawback. During fiscal year 2005, the U.S. Congress enacted the *Miscellaneous Trade and Technical Corrections Act of 2004* (Public Law 108-429) that created a limited timeframe for liquidating claims; the new process is known as deemed-liquidation by CBP. As a result of the new timeframe for liquidation of drawback claims, CBP implemented policies and procedures during fiscal year 2006 that require the payment of claims in an accelerated timeframe.

##### Condition:

We noted the following weaknesses related to internal controls over drawback of duties, taxes, and fees paid by the importer:

- The Automated Commercial System (ACS) lacked automated controls to detect and prevent excessive drawback claims and payments, necessitating inefficient manual processes that do not effectively compensate for the lack of automated controls. ACS did not have the capability to compare, verify, and track essential information on drawback claims to the related underlying consumption entries or export documentation upon which the drawback claim was based. For example, ACS did not contain electronic edit checks that would identify duplicate claims for export of the same merchandise;
- ACS lacked controls to prevent the overpayment of drawback claims at the summary line level. Specifically, we noted approximately \$3 thousand of overpayments;
- Drawback review policies did not require drawback specialists to review all or a statistically valid sample of prior drawback claims against the underlying consumption entries (UCE) to determine whether, in the aggregate, an excessive amount was claimed. CBP does not have absolute assurance that a selected import entry is not being over claimed by different drawback claims;
- Drawback review policy and procedures allow drawback specialists, with supervisory approval, to judgmentally decrease the number of ACS selected UCEs randomly selected for review, thus decreasing the review's effectiveness. Further, CBP's sampling methodology for selecting UCEs is not considered to be statistically valid; and

## EXHIBIT I

- Per CBP's "Drawback Handbook," the initial period for document retention related to a drawback claim is only 3 years from the date of payment. However, there are several situations that could extend the life of the drawback claim well beyond 3 years.

### Cause/Effect:

Much of the drawback process is manual, placing an added burden on limited resources. CBP uses a sampling approach to compare, verify, and match consumption entry and export documentation to drawback claims submitted by importers. However, system and procedural limitations decrease the effectiveness of this approach. The inherent risk of fraudulent claims or claims made in error is high, which increase the risk of erroneous payments.

### Criteria:

Under the *Federal Managers Financial Integrity Act* (FMFIA), management must implement cost-effective controls to safeguard assets and ensure reliable financial reporting. Office of Management and Budget (OMB)'s *Revised Implementation Guidance for the Federal Financial Management Improvement Act* states that financial systems should "routinely provide reliable financial information consistently, accurately, and reported uniformly" to support management of current operations. The Federal Systems Integration Office (FISO) publications and OMB Circular A-127, *Financial Management Systems*, outline the requirements for Federal systems. FISO's *Core Financial System Requirements* states that the core financial system must maintain detailed information by account sufficient to provide audit trails and to support billing and research activities. OMB Circular A-127 requires that the design of financial systems should eliminate unnecessary duplication of a transaction entry. Whenever appropriate, data needed by the systems to support financial functions should be entered only once and other parts of the system should be updated through electronic means consistent with the timing requirements of normal business/transaction cycles.

The *Improper Payments Information Act of 2002* requires agencies to annually review programs and activities and identify any that may be susceptible to significant improper payment. Whenever an agency estimates that improper payments may exceed \$10 million, it must also provide a report on what actions are being taken to reduce such payments. In addition to the regulatory requirements stated above, CBP's Drawback Handbook, dated March 2007, states that management reviews are necessary to maintain a uniform national policy of supervisory review.

### Recommendations:

We recommend that CBP:

1. Implement effective internal controls over drawback claims as part of any new system initiatives, including the ability to compare, verify, and track essential information on drawback claims to the related underlying consumption entries and export documentation for which the drawback claim is based, and identify duplicate or excessive drawback claims;
2. Implement automated controls within ACS and ACE to prevent overpayment of a drawback claim;
3. While the Automated Commercial Environment (ACE) is in development, we recommend that CBP collaborate with ACE developers/engineers to ensure that the new system eliminates the

## EXHIBIT I

need for statistically sampling of UCE and prior related drawback claims as drawback claims. In addition, until ACE is implemented, we recommend that CBP explore other statistical approaches for selecting UCEs and prior related drawback claims under the current ACS environment;

4. Continue to work with the U.S. Congress to lengthen the required document retention period for all supporting documentation so that it corresponds with the drawback claim life cycle.

### **CBP Response:**

See managements' response included in the attached letter.

### Other Significant Deficiencies

#### B. Financial Reporting

##### 1. Property, Plant, and Equipment

###### a. Secure Border Initiative – Tactical Infrastructure

###### Background:

The Secure Border Initiative – Tactical Infrastructure (SBI-TI) is a comprehensive multi-year plan to secure America's borders and reduce illegal immigration. The primary step in fulfilling this plan is the construction of a border fence between the U.S. and Mexico. The border fence will take many forms (fence, vehicle barriers, etc.) depending on the terrain of the land. Much of the physical fence construction includes large quantities of steel. As a result, CBP purchased steel in bulk during fiscal year 2008 to be used in the construction of the border fence.

###### Condition:

During fiscal year 2008, CBP purchased a total of \$276 million in steel. We noted that these purchases were initiated during the second and third quarter of the fiscal year, with the majority purchased and received during August and September. Through August 2008, \$224 million of bulk steel was purchased and received; however, CBP did not have procedures in place to capitalize the costs into the financial accounting system (SAP) until September 2008. We noted that all bulk steel purchases received as of September 30, 2008 were properly capitalized by year-end.

We also performed testwork over CBP's percentage of completion accrual related to SBI-TI fence and vehicle barriers and noted that CBP did not have sufficient support for the percentage of completion for these projects. As a result, we noted a potential overstatement of approximately \$41.3 million in construction in progress (CIP) as of September 30, 2008.

###### Criteria:

Statement of Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting for Property, Plant, and Equipment*, requires that:

- PP&E shall be recorded at cost, which shall include all costs incurred to bring the asset to a form and location suitable for its intended use;
- Costs of acquiring property, plant, and equipment may include: labor and other direct or indirect production costs (for assets produced or constructed), an appropriate share of the cost of the equipment and facilities used in construction work (CIP assets), and direct costs of inspection, supervision, and administration of construction work; and
- PP&E shall be recorded as construction work in process until it is placed in service, at which time the balance shall be transferred to general PP&E.

## EXHIBIT II

Office of Management and Budget (OMB) Circular No. A-123, Management's Responsibility for Internal Control, defines management's responsibility for internal control and provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on internal control.

### **Cause/Effect:**

The construction of the SBI-TI border fence was a new process for CBP during fiscal year 2008 and as a result processes and procedures did not exist to properly account for all related transactions in a timely manner. The untimely capitalization of assets (steel) purchased and received for the SBI-TI fence construction could result in misstatements of CBP's financial statements. For example, we noted a potential overstatement of approximately \$41.3 million in CIP as of September 30, 2008.

### **Recommendations:**

We recommend that CBP:

1. Establish a process for properly and accurately accounting for all assets purchased in a timely manner for the purposes of SBI-TI fence construction projects; and
2. Ensure the records in SAP are accurate and complete with documentation available supporting the transactions that are readily available for examination.

## **b. Untimely Transfers of Construction in Progress to Fixed Assets**

### **Background:**

During the fiscal years 2006 and 2007 financial statement audits, we noted untimely transfers of construction in progress (CIP) assets to fixed assets, in which a majority related to software in development. In fiscal year 2008, we continued to identify assets included in the CIP listing that were completed, but not transferred to fixed assets in a timely manner. As a result, CIP assets were overstated and fixed assets as well as the related accumulated depreciation and depreciation expense were understated.

### **Condition:**

During fiscal year 2008, we continued to note weaknesses related to the untimely transfers of completed CIP assets to fixed assets. Specifically, we noted 28 instances in which assets were transferred untimely from CIP to fixed assets. These 28 errors resulted in \$10.8 million of unrecognized accumulated depreciation and related depreciation expense. As a result, CBP performed an analysis of additions to fixed assets to identify the overall impact of untimely transfers from CIP to fixed assets as of September 30, 2008. Based on this analysis, CBP identified and corrected a total of \$49 million of unrecorded accumulated depreciation and related depreciation expense as of September 30, 2008. Furthermore, \$42 million of the \$49 million, related to prior year depreciation thereby causing current year depreciation expense to be overstated by \$42 million.



## EXHIBIT II

### Criteria:

Statement of Federal Financial Accounting Standards (SFFAS) No. 6, *Accounting for Property, Plant, and Equipment*, requires that:

- PP&E shall be recorded at cost, which shall include all costs incurred to bring the asset to a form and location suitable for its intended use;
- Costs of acquiring property, plant, and equipment may include: labor and other direct or indirect production costs (for assets produced or constructed), an appropriate share of the cost of the equipment and facilities used in construction work (CIP assets), and direct costs of inspection, supervision, and administration of construction work; and
- PP&E shall be recorded as construction work in process until it is placed in service, at which time the balance shall be transferred to general PP&E.

Office of Management and Budget (OMB) Circular No. A-123, Management's Responsibility for Internal Control, defines management's responsibility for internal control and provides guidance to Federal managers on improving the accountability and effectiveness of Federal programs and operations by establishing, assessing, correcting, and reporting on internal control.

### Cause/Effect:

Completed CIP assets are not transferred from CIP to fixed assets in a timely manner. As a result, CIP, PP&E, and the related financial statement balances may be misstated at any point during the fiscal year. For example, we noted an overstatement of approximately \$42 million in depreciation expense as of September 30, 2008.

### Recommendation:

We recommend that CBP:

1. Implement policies and procedures to ensure proper coordination between the Field Project Managers and the National Finance Center related to CIP project monitoring;
2. Establish periodic communication between the CIP Project Managers and the National Finance Center to ensure that when projects are complete, the assets are appropriately transferred from CIP to fixed assets in SAP; and
3. Implement policies and procedures that require the National Finance Center to perform periodic reviews over CIP assets to ensure that all CIP assets are regularly monitored and properly classified.

### CBP Response:

See managements' response included in the attached letter.

## EXHIBIT II

### 2. Inactive Obligations

#### Background:

CBP issued Directive 1220-011B during fiscal year 2006, which requires each Office under CBP to review their obligations quarterly in order to properly identify those amounts that require deobligation. The review must be reported to CBP's National Finance Center (NFC) each quarter.

#### Condition:

We noted weaknesses in CBP's policies and procedures related to timely deobligation of inactive obligations. During fiscal year 2008, we obtained the population of inactive obligations that CBP prepared and submitted to the Department. We noted that CBP's quarterly analysis of inactive obligations reported the amount of "old" inactive obligations to the Department, but did not include evidence of further review and deobligation. We noted at March 31, 2008, \$449 million of inactive obligations and conducted a review to determine if the obligations were valid. We identified \$275 million of inactive obligations potentially requiring deobligation. CBP performed an in-depth review of obligations during fiscal year 2008 from which invalid obligations were identified for deobligation. CBP was unable to process all deobligations at the detail level prior to September 30, 2008 and therefore, recorded an on-top adjustment for inactive obligations in the amount of \$84.8 million.

Through additional testing of undelivered orders (UDOs) as of September 30, 2008, we noted 9 exceptions whereby the UDO balance was determined invalid. As a result of these exceptions, CBP analyzed and adjusted the September 30, 2008 UDO balance by approximately \$76.5 million.

#### Criteria:

US Code Title 31 Section 1501 states that "an amount shall be recorded as an obligation of the United States Government only when supported by documentary evidence of (1) a binding agreement between an agency and another person (including an agency) that is (a) in writing, in a way and form and for a purpose authorized by law; and (b) executed before the end of the period of availability." Section 1554, Audit, control and reporting states, "The head of each agency shall establish internal controls to assure that an adequate review of obligated balances is performed to support the certification required by section 1108(c) of this title."

CBP Directive 1220-011B, *Quarterly Review of Unliquidated Obligations*, states that "Financial Plan Holder will review the following Systems, Applications, and Products (SAP) reports each fiscal quarter to reconcile their obligations to supporting records." This directive also requires that "Each Assistant Commissioner will prepare a certification letter to the Director, National Finance Center, stating that he/she has reviewed all open obligations. The certification letter will be prepared at the end of each fiscal year quarterly review, and is due no later than 30 days after the end of the quarter. For the fourth quarter, year-end deadlines are to be followed."

#### Cause/Effect:

CBP is not properly monitoring all open obligations on a periodic basis to determine if amounts require deobligation. As a result, undelivered orders and related account balances may be overstated at any point during the fiscal year. For example, we noted a potential overstatement of approximately \$76.5 million in the UDO balance as of September 30, 2008.

### Recommendations:

We recommend that CBP:

1. Develop and implement policies and procedures to ensure compliance with Directive No. 1220-011B to ensure that obligations are being reviewed (and deobligated, if necessary) on a quarterly basis;
2. Develop and implement policies and procedures to ensure compliance with 31 USC 1501 and 31 USC 1554 and all other applicable laws and regulations; and
3. Develop and implement procedures in order to deobligate invalid obligations in a timely manner, which may include periodic validation of inactive obligations.

### CBP Response:

See managements' response included in the attached letter.

## C. Entry Process

### 1. In-Bond Program

#### Background:

In-bond entries occur when merchandise is transported through one port; however, the merchandise does not officially enter U.S. commerce until it reaches the intended port of destination. An in-bond also allows foreign merchandise arriving at one U.S. port to be transported through the U.S. and be exported from another U.S. port without appraisal or the payment of duty. In 1998, CBP implemented a tracking and audit system within the Automated Commercial System (ACS). It was designed to provide "real time" tracking of in-bond shipments from origin to destination, including entry and exportation. This tracking and audit system also serves as a compliance measurement system through random examinations and port audit reviews to ensure compliance. The tracking and audit system was designed to prevent diversion of In-bond shipments being imported and exported. The tracking and audit system calls for randomly selected ports to perform physical examinations at the time of arrival and departure as well as for post audit reviews of carrier activity. The In-Bond Shipments Overdue for Export (M02) Report is a monthly list of in-bond shipments overdue for export. Items on this report are in-bond movements transmitted by importers or brokers via Air Manifest System (AMS), Automated Broker Interface (ABI), or paper not yet exported in the required time limit. Review of the M02 report is designed to identify cargo that has not been exported and therefore may have physically, but not formally, entered into U.S. commerce thus circumventing the assessment and payment of duties and fees.

#### Condition:

We noted the following internal control weaknesses related to the in-bond process:

- Inconsistent procedures followed by the ports for completing compliance reviews/audits of in-bond entries and no formal requirement for ports to maintain documentation evidencing reviews/audits or the overall lack of the completion of such reviews/audits;

## EXHIBIT II

- Inconsistent review of required monthly reports related to in-bond activity at the ports and significant system limitations of the monthly reports, which limit the overall usefulness;
- CBP does not have the ability to run an oversight report to determine if ports have completed all required audits;
- Formal procedures have not been established that require ports to review the overdue immediate transportation in-bonds (M07 report). In addition, the report to track air in-bonds (M19) has not been implemented;
- CBP is unable to determine the status of the in-bond shipments with the information available within ACS;
- National policies or procedures do not exist to monitor the results of in-Bond audits; and
- CBP does not perform an analysis to determine the potential loss of revenue through the in-bond process as a result of goods entering the commerce of the U.S. without formal entry.

### Criteria:

Under the Code of Federal Regulations (CFR) Title 19, Section 18.2(d), carriers are responsible for delivering in-bond manifests to CBP within two days of arrival, and CBP is responsible for assigning penalties to any non-arrivals. The CFR states, "Failure to surrender the in-bond manifest or report the arrival of bonded merchandise within the prescribed period shall constitute an irregular delivery and the initial bonded carrier shall be subject to applicable penalties."

Under FMFIA, management must implement cost-effective controls to safeguard assets and ensure reliable financial reporting. OMB's *Revised Implementation Guidance for FMFIA*, states that financial systems should "routinely provide reliable financial information consistently, accurately, and reported uniformly" to support management of current operations.

### Cause/Effect:

In recent years, several new directives and new handbooks have been implemented for the In-Bond program to address the performance of the program at the port level; however, currently, procedures are not in place to address CBP's oversight of the program on a national level.

The lack of an automatic compilation and analysis of audit results at the national level, results in the inability to determine the overall effectiveness of the in-bond audits and weaknesses in the overall In-bond program will not be known or identified at the national level.

The inability to effectively monitor the in-bond process and verify the arrival of in-bond merchandise at the port level leads to a potential loss in revenue. This potential loss in revenue is due to uncollected duties and fees on in-bond merchandise that has physically entered U.S. commerce without formal entry.

### Recommendations:

We recommend that CBP:

1. Increase oversight by communicating to the ports the requirements for the in-bond program and provide increased training for appropriate personnel to ensure that the requirements are carried out accurately;
2. Ensure all ports perform TinMan audits (physical examinations and post-audits) weekly and resolve items on the M02 report (in-bond shipments overdue for export) monthly;
3. Develop policies and procedures for all ports to:
  - a. Maintain documentation evidencing the resolution of items on the in-bond shipments overdue for export report (M02);
  - b. Maintain documentation evidencing the performance of and results from post audits and physical examinations;
  - c. Require review of overdue immediate transportation in-bonds (M07 report) and maintain documentation evidencing review; and
  - d. Require review of the report to track air in-bonds (M19) and maintain documentation evidencing review, once the report is implemented.
4. Update system functionality to provide consistent information between cumulative and weekly reports used to track the status of TinMan audits, to compile the results of TinMan audits performed during the year, and to evaluate importers' compliance with regulations and overall effectiveness of the in-bond program;
5. Implement standard procedures to periodically analyze the compiled results of all in-bond audits performed during the year to ensure the integrity of the data received. Once the results are compiled, perform an analysis to evaluate importers' compliance with regulations as well as the overall effectiveness of the in-bond audits at a national level; and
6. Analyze the in-bond program annually to determine the potential loss of revenue relating to in-bonds.

## 2. Compliance Measurement

### Background:

Compliance Measurement (CM) is the primary method by which CBP measures risk in the areas of cargo security, trade compliance, and revenue collection. CBP utilizes the CM program to measure the effectiveness of its control mechanisms deployed and its execution in collecting revenues rightfully due the U.S. Department of the Treasury. The CM program is a key performance indicator used to determine if CBP's internal controls are operating effectively as they pertain to ensuring compliance with laws and regulations. The Compliance Measurement program is also used to determine the revenue gap that is reported in the "Other Accompanying Information" in the financial statements.

## EXHIBIT II

### Condition:

We noted the following weaknesses related to CBP's CM Program:

- CM oversight guidelines do not provide complete coverage over the CM program. CBP issued a memorandum to the field explaining the responsibilities of ports in terms of oversight required of CM programs at the ports. The memorandum rescinded requirements to use other data queries and established CMATS as the single tool for monitoring Compliance Measurement at the ports. According to the memo, CMATS was expected to be used on a monthly basis to review errors and anomalies at the ports. Through our discussions with CM Coordinators at eleven ports as well as our review of the CMATS standard operating procedures, we learned that CMATS does not provide timely monitoring of Import Specialist Discrepancy Add (ISDA) remarks. In addition, further guidance from the Commercial Targeting and Enforcement Directorate of the Office of International Trade (OT) indicated that errors and anomalies identified by CMATS did not have to be resolved until January 2009. Guidance from the Commercial Targeting and Enforcement Directorate also suspended the requirement for CM Coordinators at the ports to perform random reviews of non-anomalous lines due to an error in the programming of the CMATS tool. The suspension of review using the CMATS tool was not replaced by any other data query or tool.
- Weaknesses in headquarters' (HQ) oversight of the CM program. CBP performs little review or analysis over the CM data input remarks at the HQ level to ensure that they are input accurately and correctly. Until fiscal year 2006, the National Targeting and Control Branch (NTCB), formally known as the National Analysis Specialist Division (NASD), performed port audits to identify errors during the performance of a CM review. Since fiscal year 2006, CBP-HQ has relied on the Self-Inspection Program (SIP) to determine how the ports are performing the CM examinations. We noted in fiscal years 2006, 2007, and again in 2008 that the SIP worksheets do not provide the equivalent information that was provided by the twenty-five point audit report utilized in the NTCB port audits.
- Untimely results of CM exams. The *Compliance Measurement for FY 2008, Appendix B* mandates that final ISDA remarks and a determination of compliance for CM examinations be input within 120 days of the date of entry. Furthermore, ACS cannot provide a detailed history of changes made to the ISDA remarks lines.

We noted that portions of the conditions cited above have been addressed by CBP in response to the CM findings from fiscal years 2005, 2006, and 2007 financial statement audits. We noted that based on Mission Action Plan (MAP) CBP-MAP-07-17 1.5 that CBP is in the process of developing a query to generate a statistically valid random sample of entry summary reviews for the CM coordinator to review each month (CBP-MAP-07-17 1.5). In addition to the standardized queries being developed at the port level, a series of queries will be run by the CM coordinator at HQ each month, which will randomly select CM reviews performed nation wide to ensure that ports are in compliance with CM guidelines and requirements. We noted from our inquiry that the elements indicated above, as described in CBP-MAP-07-17, were not implemented as of September 2008. As such, these conditions are still applicable for all of fiscal year 2008.

### Criteria:

Under the Statement of Federal Financial Accounting Standards No. 7, *Accounting for Revenue and Other Financial Sources*, section 69.2, available information on the size of the tax gap states, “Collecting entities should provide any relevant estimates of the annual tax gap that become available as a result of federal government surveys or studies. The tax gap is defined as taxes or duties due from non-compliant taxpayers or importers. Amounts reported should be specifically defined, e.g., whether the tax gap includes or excludes estimates of taxes due on illegally earned revenue.”

Under the OMB A-136 *Financial Reporting Requirements*, Section 12.3, *Tax Burden/Tax Gap* states, “Preparers of statements of entities that collect taxes may consider presenting the information described below, if the information is readily available and the preparers believe the information will enhance the usefulness of the statements. Refer to SFFAS No. 7 for further guidance.” Specifically, we noted the following guidance:

- *A perspective on the income tax burden.* This could take the form of a summary of the latest available information on the income tax and on related income, deductions, exemptions, and credits for individuals by income level and for corporations by value of assets.
- *Available information on the size of the tax gap.* Collecting entities should provide any relevant estimates of the annual tax gap that become available as a result of Federal surveys or studies.

Under FMFIA, management must implement cost-effective controls to safeguard assets and ensure reliable financial reporting. OMB’s *Revised Implementation Guidance for FFMLA*, states that financial systems should “routinely provide reliable financial information consistently, accurately, and reported uniformly” to support management of current operations.

### Cause/Effect:

CBP has been challenged to balance its commitment of limited resources to two important mission objectives – trade compliance, including the collection of taxes, duties and fees owed to the Federal government, and securing the U.S. borders from potential terrorist entry. While these mission objectives do overlap somewhat, there are differences in how resources are deployed.

The weaknesses in the CM program could result in CBP incorrectly evaluating the effectiveness of its control environment over the collections of duties, taxes, and fees. In addition, errors within the CM program could result in a misstatement of the “revenue gap” disclosure in the Management Discussion and Analysis section of CBP’s Performance and Accountability Report.

### Recommendations:

We recommend that CBP implement the following to improve the CM program:

1. Provide additional detail in the guidelines, specifying the use of the CMATS tool in addition to any other data query or tool to provide complete coverage over the CM program. The guidance should also re-address the timing requirements for the monitoring reports or data queries and documentation retention;



## EXHIBIT II

2. Re-formalize and implement effective procedures for the port audit process performed by NTCB, or re-address the self-inspection program to provide a more comprehensive and in-depth review of port activity (similar to what was accomplished under the previously performed port audits), including ensuring that the port is performing the reviews accurately; and
3. Periodically conduct training to ensure that all port personnel have a comprehensive knowledge of the CM program requirements.

### 3. Bonded Warehouse and Foreign Trade Zones

#### Background:

Bonded Warehouses (BWH) are facilities under the joint supervision of CBP and the BWH proprietor used to store merchandise that has not made entry into U.S. commerce.

Foreign Trade Zones (FTZ) are secured areas under the joint supervision of CBP and the FTZ operator that are considered outside of the U.S. commerce for duty collection. Authority for establishing these facilities is granted by the U.S. Department of Commerce's Foreign Trade Zones Board under the *Foreign Trade Zones Act of 1934*, as amended (19 U.S.C. 81a-81u). Foreign and domestic merchandise may be admitted into zones for operations not otherwise prohibited by law, including storage, exhibition, assembly, manufacturing, and processing.

#### Condition:

We noted the following internal control weaknesses related to the BWH and FTZ processes:

- CBP does not maintain one centrally managed list of all BWHs and FTZs;
- Current BWH and FTZ Compliance Review Manuals lack specific guidance for ports to determine the appropriate risk assessment of a BWH or FTZ; and
- Annual compliance review schedules are completed by the ports and provided to Headquarters once a year. The HQ retrieval and review of the surveys can take up to 6 months to compile and analyze. In addition, the monitoring tool used is ineffective as it contains no data on the effectiveness of compliance reviews, common discrepancies identified in those reviews, risks presented by those discrepancies, or techniques for mitigating those risks.

#### Criteria:

Under the Code of Federal Regulations, CBP's supervisory authority over bonded warehouses and foreign trade zones is outlined in Title 19, Section 19.4(a), "...the port director may authorize a Customs officer to supervise any transaction or procedure at the bonded warehouse facility. Such supervision may be performed through periodic audits of the warehouse proprietor's records, quantity counts of goods in warehouse inventories, spot checks of selected warehouse transactions or procedures or reviews of conditions of recordkeeping, storage, security, or safety in a warehouse facility." Title 19, Section 146.3 states, (a), "Customs officers will be assigned or detailed to a zone as necessary to maintain appropriate Customs supervision of merchandise and records pertaining thereto in the zone, and to protect the revenue." (b), "Supervision may be performed through a periodic audit of the operator's records, quantity

## EXHIBIT II

count of goods in a zone inventory, spot check of selected transactions or procedures, or review of recordkeeping, security, or conditions of storage in a zone.”

Under FMFIA, management must implement cost-effective controls to safeguard assets and ensure reliable financial reporting. OMB's *Revised Implementation Guidance for FFMLA*, states that financial systems should “routinely provide reliable financial information consistently, accurately, and reported uniformly” to support management of current operations.

### **Cause/Effect:**

ACS, CBP's current system, does not maintain a complete listing of BWHs and FTZs.

Annual training is not provided to BWH/FTZ port personnel for updates, changes, and reinforcement of requirements over the program.

Processes do not exist for the ports to provide on a timely basis the results of the BWH/FTZ compliance review schedules and risk assessments to CBP-HQ for review. As a result, CBP-HQ cannot determine the effectiveness of the BWH/FTZ program without the ability to track the results on a consistent timely basis from the ports.

It is possible that BWH/FTZ operators and users may be able to operate BWHs and FTZs that contain merchandise about which CBP has no knowledge.

### **Recommendations:**

We recommend that CBP:

1. Develop standardized procedures for HQ or field office oversight to ensure compliance review schedules are being reviewed and provide effective timely training to ensure that all ports are aware of updates and changes to the program and can consistently execute all requirements presented in the compliance review manuals and handbooks;
2. Continue the current implementation of national databases of all BWHs and FTZs within ACE and develop procedures to ensure their completeness. Develop functionality for these databases to document the results of risk assessments and compliance reviews;
3. Develop standard procedures for conducting risk assessments for all BWHs and FTZs. The standard procedures should include a questionnaire or checklist, which lists the areas of risk to evaluate, the relative importance of each area, and examples of possible high risk indicators;
4. Implement a standard format for compliance review schedules to be utilized by all ports for transmission to CBP-HQ. Ensure timely response and review by HQ personnel;
5. Develop and implement a more comprehensive electronic port survey system to provide additional detailed and timely information on the BWH and FTZ programs;
6. Using the information received from a more detailed port survey system or through other means, prepare an analysis of common discrepancies identified in compliance reviews, risks presented by those discrepancies, and techniques for mitigating those risks;

## EXHIBIT II

7. Increase HQ and field office oversight to ensure that compliance reviews are being conducted properly and timely in accordance with the Compliance Review Handbooks; and
8. Require ports to monitor the bond status of BWHs to ensure each BWH has a valid bond.

### **CBP Response:**

See managements' response included in the attached letter.

### **D. Information Technology**

#### **Background:**

Controls over information technology (IT) and related financial systems are essential elements of financial reporting integrity. Effective general controls in an IT and financial systems environment are typically defined in six key control areas: entity-wide security program planning and management, access control, application software development and change control, system software, segregation of duties, and service continuity. In addition to reliable controls, financial management system functionality is important to program monitoring, increasing accountability of financial and program managers, providing better information for decision-making, and increasing the efficiency and effectiveness of services provided by the Federal government.

#### **Condition:**

During fiscal year 2008, CBP took corrective actions to address prior year IT control weaknesses. However, during fiscal year 2008, we continued to find significant deficiencies related to IT general and application controls at CBP. The most significant deficiency from a financial statement audit perspective relate to information security. Collectively, the IT control deficiencies limit CBP's ability to ensure that critical financial and operational data is maintained in such a manner to ensure confidentiality, integrity, and availability. Because of the sensitive nature of the issues identified, we will issue a separate restricted distribution report to address those issues in detail.

#### **Criteria:**

The *Federal Information Security Management Act* (FISMA), passed as part of the *E-Government Act of 2002*, mandates that Federal entities maintain IT security programs in accordance with OMB and National Institute of Standards and Technology (NIST) guidance. OMB Circular A-130, *Management of Federal Information Resources*, and various NIST guidelines describe specific essential criteria for maintaining effective general IT controls. In addition, OMB Circular A-127 prescribes policies and standards for executive departments and agencies to follow in developing, operating, evaluating, and reporting on financial management systems.

#### **Recommendation:**

Due to the sensitive nature of these findings, our separate report will recommend that CBP management implement and enforce certain procedures to address the general and application control vulnerability of its financial systems.

## EXHIBIT II

### **CBP Response:**

See managements' response included in the attached letter.

### **Compliance with Laws and Regulations**

(Findings A and B - D are presented in Exhibits I and II, respectively)

#### ***E. Federal Information Security Management Act (E-Government Act of 2002)***

CBP is required to comply with the FISMA, which was enacted as part of the *E-Government Act of 2002*. FISMA requires the head of each agency to be responsible for 1) providing information security protections commensurate with the risk and magnitude of the harm resulting from unauthorized access, use, disclosure, disruption, modification, or destruction of (i) information collected or maintained and (ii) information systems used or operated; 2) complying with the requirements of the Act and related policies, procedures, standards, and guidelines, including (i) information security standards under the United States Code, Title 40, Section 11331 and (ii) information security standards and guidelines for national security systems; and 3) ensuring that information security management processes are integrated with agency strategic and operational planning processes. We noted instances of non-compliance with FISMA that have been reported by us in Exhibit II within Comment D – *Information Technology*.

#### **Recommendations:**

We recommend that CBP fully implement the requirements of FISMA in fiscal year 2009.

#### **CBP Response:**

See managements' response included in the attached letter.

#### ***F. Federal Financial Management Improvement Act of 1996 (FFMIA)***

CBP is required to comply with FFMIA, which requires that an agency's financial management systems substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. We noted instances of non-compliance with FFMIA in relation to Federal financial management systems requirements and the United States Government Standard General Ledger at the transaction level.

Specifically, we noted the following weaknesses:

1. With respect to Federal financial management system requirements, CBP's inventory transactions do not interface between the inventory systems and the financial system (SAP) and non-entity accounts receivable do not interface between ACS and SAP; and
2. With respect to the United States Government Standard General Ledger at the transaction level, inventory activity (usage, turn-ins, interagency transfers) and non-entity accounts receivable are not recorded at the transaction level in SAP. Non-entity accounts receivable information is maintained in ACS, SAP, and on manually prepared schedules. ACS is made up of several financial modules that track receivables through entry or case number. Year-end balances are posted through the ACS/SAP interface and through manual calculations for receivables not recorded through the ACS/SAP interface.

## Exhibit III

### **Recommendation:**

We recommend that CBP improve its processes to ensure compliance with the FFMIA in fiscal year 2009.

### **CBP Response:**

See managements' response included in the attached letter.

## EXHIBIT IV

### STATUS OF PRIOR YEAR SIGNIFICANT DEFICIENCIES AND NON-COMPLIANCE WITH SIGNIFICANT LAWS AND REGULATIONS

| Prior Year Condition  | As Reported at September 30, 2007   | Status as of September 30, 2008   |
|---|---|---|
| <b>Drawback of Duties, Taxes and Fees</b>                               | <b>Material weakness:</b> ACS lacked controls to detect and prevent excessive drawback claims and payments, requiring inefficient manual processes to compensate and the drawback review policies did not require drawback specialists to review all related drawback claims.   | <b>Continue as a material weakness:</b> Weaknesses continue to exist related to the drawback process in fiscal year 2008. See control finding letter A.   |
| <b>Entry Process – In Bond</b>  | <b>Significant deficiency:</b> Several weaknesses existed related to in-bond, such as the lack of official guidance and training to address the monitoring of in-bond shipments at the port level, lack of CBP-HQ review of the in-bond program, and the overall inability to determine the effectiveness of the in-bond program for CBP in its entirety. | <b>Continue as a significant deficiency:</b> Although improvements were made, weaknesses still remain during fiscal year 2008. See control finding letter C.  |
| <b>Entry Process – Compliance Measurement Program</b>                   | <b>Significant deficiency:</b> Several weaknesses existed related to CMP, such as inconsistent procedures followed at the ports, reduced CMP sample size, lack of NTCB (formally NASD) port audits, and little review or analysis on the CM data to ensure that it was inputted correctly.  | <b>Continue as a significant deficiency:</b> Although improvements were made, weaknesses still remain during fiscal year 2008. See control finding letter C.  |
| <b>Entry Process – Bonded Warehouse and Foreign Trade Zones</b>         | <b>Significant deficiency:</b> Several weaknesses existed related to BWH/FTZ, such as the lack of official guidance and training to address the monitoring of BWH/FTZ, and lack of management review of the BWH/FTZ surveys.  | <b>Continue as a significant deficiency:</b> Weaknesses continue to exist related to the bonded warehouse and foreign trade zone process during fiscal year 2008. See control finding letter C.                         |
| <b>Information Technology</b>   | <b>Material weakness:</b> Weaknesses were noted in entity-wide security, system access, segregation of duties, service continuity, and system software change management.   | <b>Reduced to a significant deficiency:</b> Improvements were made to correct the material weakness; however, significant deficiencies remain in all areas noted during fiscal year 2008. See control finding letter D. |
| <b>Continued Dumping and Subsidy Offset Act of 2000 (CDSOA) Refunds</b> | <b>Significant deficiency:</b> Weaknesses existed related to CDSOA such as the lack of a process to validate and verify CDSOA disbursements.  | <b>No longer considered a significant deficiency.</b>   |
| <b>Non-compliance with the Federal Information</b>                      | <b>Instance of non-compliance:</b> CBP was not in substantial compliance with FISMA. FISMA requires the head of each agency to  | <b>Continue reporting as an instance of non-compliance:</b> Although improvements were  |



## STATUS OF PRIOR YEAR SIGNIFICANT DEFICIENCIES AND NON-COMPLIANCE WITH SIGNIFICANT LAWS AND REGULATIONS

| Prior Year Condition  | As Reported at September 30, 2007   | Status as of September 30, 2008  |
|---|---|--|
| <i>Security Management Act</i>  | be responsible for 1) providing information security protections commensurate with the risk and magnitude of the harm resulting from unauthorized access, use, disclosure, disruption, modification, or destruction of (i) information collected or maintained and (ii) information systems used or operated; 2) complying with the requirements of the Act and related policies, procedures, standards, and guidelines, including (i) information security standards under the United States Code, Title 40, Section 11331 and (ii) information security standards and guidelines for national security systems; and 3) ensuring that information security management processes are integrated with agency strategic and operational planning processes. | made, CBP did not substantially comply with all categories of FISMA during fiscal year 2008. See compliance finding letter E.  |
| <b>Non-compliance with the Federal Financial Management Improvement Act of 1996</b> | <b>Instance of non-compliance:</b> CBP was not in substantial compliance with FFMIA, which requires that an agency's financial management systems substantially comply with Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. We noted instances of non-compliance with FFMIA in relation to Federal financial management systems requirements, the United States Government Standard General Ledger at the transaction level, and Federal accounting standards  | <b>Continue reporting as an instance of non-compliance:</b> Although improvements were made, CBP did not substantially comply with all categories of FFMIA during fiscal year 2008. See compliance finding letter F. |

# Management's Response to the Independent Auditor's Report

U.S. Department of Homeland Security  
Washington, DC 20229

DEC 16 2008



U.S. Customs and  
Border Protection

MEMORANDUM FOR: Inspector General  
U.S. Department of Homeland Security

FROM: Eugene H. Schied  
Assistant Commissioner  
Office of Finance

SUBJECT: Management Response to Independent Auditor's Report on  
U.S. Customs and Border Protection's Fiscal Year 2008  
Financial Statements

On behalf of U.S. Customs and Border Protection (CBP), I am responding to the Independent Auditor's Report on CBP's Fiscal Year (FY) 2008 Financial Statements, which is included in our FY 2008 Performance and Accountability Report.

I accept the independent public accounting firm's (KPMG) *unqualified* opinion on CBP's FY 2008 Financial Statements, which concluded that CBP's consolidated financial statements are fairly presented in all material respects in conformity with accounting principles. CBP efforts to resolve identified weaknesses from the FY 2007 audit resulted in reducing the "Information Technology" finding from a material weakness to a significant deficiency in FY 2008.

CBP has reviewed and concurs with the one material weakness, three significant deficiencies, and two instances of non-compliance with laws and regulations cited in the auditor's FY 2008 report. CBP will be preparing Mission Action Plans (MAPs) to address these items and will forward such plans to the U.S. Department of Homeland Security's Office of Financial Management for review and feedback. CBP will continue working to resolve all auditor-identified weaknesses.

CBP appreciates the opportunity to review this year's audit report and looks forward to continuing our strong working relationship with your office. If you have any questions or would like additional information, please contact me at (202) 344-2300 or a member of your staff may contact Mari Boyd, Executive Director, Financial Operations, at (202) 344-2364.

A handwritten signature in black ink, appearing to read "E. Schied".

Eugene H. Schied

# Independent Auditor's Report

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# Acronyms

|        |   |           |   |
|--------|---|-----------|---|
| A&M    | Air and Marine  | CLP       | Carrier Liaison Program                             |
| ACE    | Automated Commercial Environment                            | CMATS     | Compliance Measurement Accuracy and Tracking System |
| ACS    | Automated Commercial System                                 | COMPSTAT  | Comparative Statistics                              |
| ADPI   | AZ Denial Prosecution Initiative                            | COP       | Common Operating Picture                            |
| AFB    | Air Force Base  | COS       | Chief of Staff                                      |
| AIS    | Automated Identification System                             | CSI       | Container Security Initiative                       |
| AMOR   | Air and Marine Operations Reporting System                  | CSP0      | Cargo Systems Program Office                        |
| APATS  | Air Program Administration Tracking System                  | C-TPAT    | Customs Trade Partnership Against Terrorism         |
| APIS   | Advance Passenger Information System                        | CTTP      | Consolidated Trusted Traveler Program               |
| ARO    | Admissibility Review Office                                 | DHS       | Department of Homeland Security                     |
| ATEP   | Alien Transfer and Exit Program                             | DOD       | Department of Defense                               |
| ATS    | Automated Targeting System                                  | DOS       | Department of State                                 |
| ATV    | All-Terrain Vehicles  | EDL       | Enhanced Driver Licenses                            |
| AZ     | Operation Arizona Denial                                    | EEO       | Equal Employment Opportunity                        |
| BCC    | Border Crossing Card  | EITs      | Entry Identification Teams                          |
| BICs   | Border Intelligence Centers                                 | ENFORCE   | Enforcement Case Tracking                           |
| BPETS  | Border Patrol Enforcement Tracking System                   | ER        | Expedited Removal                                   |
| BSETs  | Border Security Evaluation Teams                            | ESTA      | Electronic System for Travel Authorization          |
| BSI    | Border Security Initiative                                  | EVDO      | Evolution Data Optimized                            |
| BWH    | Bonded Warehouse  | FAST      | Free and Secure Trade                               |
| CAMITS | Customs Automated Maintenance Inventory System              | FBI       | Federal Bureau of Investigation                     |
| CAR    | Checkpoint Activity Report                                  | FDAU      | Fraudulent Document Analysis Unit                   |
| CARMAC | Computerized Aircraft Reporting and Material Control System | FFMIA     | Federal Financial Management Improvement Act        |
| CBP    | U.S. Customs and Border Protection                          | FISMA     | Federal Information Security Management Act of 2002 |
| CBPO   | CBP Border Patrol Officer                                   | FLETC     | Federal Law Enforcement Training Center             |
| CDSOA  | Continued Dumping and Subsidy Offset Act of 2000            | FMFIA     | Federal Managers' Financial Integrity Act           |
| CFO    | Chief Financial Officer                                     | FOB       | Forwarding Operating Bases                          |
| CFR    | Code of Federal Regulations                                 | FRAMEWORK | Standards to Secure and Facilitate Global Trade     |
| CIP    | Construction in Process                                     | FSIA      | Federal Systems Integration Office                  |
| CIS    | Citizenship and Immigration Services                        |           |   |

|       |   |        |   |
|-------|---|--------|---|
| FY    | Fiscal Year   | NLETS  | National Law Enforcement Telecommunication System             |
| FYHSP | Future Year Homeland Security Program               | NTC    | National Targeting Center                                     |
| GAO   | Government Accountability Office                    | NTCC   | National Targeting Center-Cargo                               |
| GPRA  | Government Performance and Results Act              | NTCP   | National Targeting Center-Passenger                           |
| HRM   | Human Resources Management                          | OASISS | Operation Against Smugglers Initiative on Safety and Security |
| HQ    | Headquarters  | OBP    | Office of Border Patrol                                       |
| I-19  | Interstate 19                                       | OCA    | Office of Congressional Affairs                               |
| IA    | Internal Affairs                                    | OCC    | Office of Chief Counsel                                       |
| IAP   | Immigration Advisory Program                        | OEO    | Office of Equal Opportunity                                   |
| IBET  | Integrated Border Enforcement Teams                 | OES    | Office of Executive Secretariat                               |
| ICAD  | Intelligence Computer Assisted Detection            | OF     | Office of Finance   |
| ICE   | Immigration and Customs Enforcement                 | OFO    | Office of Field Operations                                    |
| ICS   | International Container Security                    | OGA    | Other Government Agencies                                     |
| ILU   | International Liaison Unit                          | OIG    | Office of Inspector General                                   |
| INA   | Immigration and Nationality Act                     | OIOC   | Office of Intelligence and Operations Coordination            |
| INATR | Office of International Affairs and Trade Relations | OIT    | Office of Information and Technology                          |
| ITDS  | International Trade Data System                     | OJS    | Operation Jump Start  |
| IT    | Information Technology                              | OMB    | Office of Management and Budget                               |
| MAP   | Mission Action Plan                                 | OMR    | Operations Management Reports                                 |
| MID   | Management Inspection Division                      | OPA    | Office of Public Affairs                                      |
| MLU   | Mexican Liaison Units                               | OPP    | Office of Policy and Planning                                 |
| MPC   | Mobile Processing Center                            | ORBBP  | Operational Requirements Based Budget Program                 |
| MRVS  | Mobile Remote Video Systems                         | OT     | Office of International Trade                                 |
| NCIC  | National Crime Information Center                   | OTD    | Office of Training and Development                            |
| NEXUS | Expedited Processing for Low Risk Trusted Travelers | OTM    | Other Than Mexican  |
| NFC   | National Finance Center                             | PAP    | Partnership Action Plan                                       |
| NFR   | Notice of Finding and Recommendation                | PAR    | Performance and Accountability Report                         |
| NII   | Non-Intrusive Inspection                            | PART   | Performance Assessment Rating Tool                            |
| NIST  | National Institute of Standards and Technology      | PIERS  | Port Import Export Reporting Service                          |

# Acronyms

|         |  |          |  |
|---------|--|----------|--|
| PMA     | President's Management Agenda                            | TECS     | Traveler Enforcement Communication System              |
| POE     | Port of Entry  | TI       | Tactical Infrastructure                                |
| POEs    | Ports of Entry   | TIDE     | Terrorist Identifies Datamart Environment              |
| PP&E    | Property Plant and Equipment                             | TRVS     | Trailer Remote Video System                            |
| PSPO    | Passenger System Program Office                          | TSA      | Transportation Security Agency                         |
| PSM     | Passenger Service Managers                               | UAS      | Unmanned Aircraft System                               |
| QFR     | Question for Record                                      | UCE      | Underlying Consumption Entry                           |
| RCI     | Rice-Chertoff Initiative                                 | UDO      | Undelivered Orders                                     |
| RCMP    | Royal Canadian Mounted Police                            | U.K.     | United Kingdom   |
| RFID    | Radio Frequency Identification Device                    | U.S.     | United States  |
| RIOS    | Radio Interoperability System Monitor                    | USCG     | U.S. Coast Guard                                       |
| RPM     | Radiation Portal Monitor                                 | USDA     | U.S. Department of Agriculture                         |
| RVSS    | Remote Video Surveillance                                | US PASS  | U.S. Passenger Accelerated Service System              |
| SAFE    | Safety and Accountability for Every Port Act legislation | US-VISIT | U.S. Visitor and Immigrant Status Indicator Technology |
| SCSSs   | Supply Chain Security Specialists                        | VACIS    | Vehicle and Cargo Inspection Systems                   |
| SAP     | Systems, Applications, and Products                      | VoIP     | Voice Over Internet Protocol                           |
| SBI     | Secure Border Initiative                                 | VSC      | Video Spectral Comparator                              |
| SBI PEO | Secure Border Initiative Program Executive Office        | VWP      | Visa Waiver Program                                    |
| SENTRI  | Secure Electronic Network for Traveler Rapid Inspection  | WADS     | Work Accomplishment Data System                        |
| SFFAS   | Statement of Federal Financial Accounting Standards      | WCO      | World Customs Organization                             |
| SFI     | Secure Freight Initiative                                | WCO DMPT | WCO Data Model Project Team                            |
| SIP     | Self-Inspection Program                                  | WHTI     | Western Hemisphere Travel Initiative                   |
| SIRS    | Self-Inspection Reporting System                         | WMD      | Weapons of Mass Destruction                            |
| SME     | Subject Matter Expert                                    | WME      | Weapons of Mass Effects                                |
| SNMP    | Simple Network Management Protocol                       | XLM      | Extensible Markup Language                             |
| TASPO   | Targeting and Analysis Systems Program Office            | 9/11 Act | 9/11 Commission Act                                    |
| TDY     | Temporary Duty   | 10 + 2   | Security Filing  |



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## U.S. Customs and Border Protection

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Room 950, National Place  
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Please visit the U.S. Customs and Border Protection Web site at  
[www.cbp.gov](http://www.cbp.gov)

To report suspicious activity, call  
1 800 BE ALERT

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